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АКАДЕМИЯ НАУК СССР  
ИНСТИТУТ ЭКОНОМИКИ

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# ПОЛИТИЧЕСКАЯ ЭКОНОМИЯ

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УЧЕБНИК

ГОСУДАРСТВЕННОЕ ИЗДАТЕЛЬСТВО  
ПОЛИТИЧЕСКОЙ ЛИТЕРАТУРЫ  
МОСКВА-1954

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## **PREFACE**

This textbook of political economy was written by a team of economists consisting of Academician K. V. Ostrovityanov, Corresponding Member of the Academy of Sciences of the USSR D. T. Shepilov, Corresponding Member of the Academy of Sciences of the USSR L. A. Leontiev, Full Member of the All-Union Academy of Agricultural Sciences named after Lenin I. D. Laptev, Professor I. I. Kuzminov, Doctor of Economics L. M. Gatovsky, Academician P. F. Yudin, Corresponding Member of the Academy of Sciences of the USSR A. I. Pashkov. Candidate of Economic Sciences V. I. Pereslegin. The selection and processing of statistical materials included in the textbook was attended by Doctor of Economics V. N. Starovsky.

In developing the draft textbook, many Soviet economists made valuable critical remarks and made a number of useful suggestions for the text. These comments and suggestions were taken into account by the authors in the subsequent work on the textbook.

The November 1951 economic discussion organised by the Central Committee of the Communist Party of the Soviet Union was of great importance for the work on the textbook. The resulting proposals for improving the draft textbook were an important source for improving the structure of the textbook and enriching its content.

The final revision of the textbook was carried out by comrades: Ostrovityanov K. V., Shepilov D. T., Leontiev L. A., Laptev I. D., Kuzminov I. I., Gatovsky L. M.

Fully aware of the importance of the Marxist textbook of political economy, the authors intend to continue work on the further improvement of the text of the textbook on the basis of the critical remarks and wishes that will be made by readers after reading the first edition of the textbook. In this regard, the authors ask readers to send their feedback and suggestions on the textbook to the address: Moscow, Volkhonka Street, 14, Institute of Economics of the USSR Academy of Sciences.

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***August 1954 Moscow***



# INTRODUCTION

Political economy is one of the social sciences<sup>1</sup>. It studies the laws of social production and distribution of material goods at various stages of the development of human society.

The basis of the life of society is material production. In order to live, people must have food, clothing, and other material goods. In order to have these goods, people must produce them, they must work.

People produce material goods, that is, they fight against nature, not alone, but together, in groups, in societies. Consequently, *production is always* and under all conditions social production, and labour is the activity of *social* man.

The process of production of material goods presupposes the following moments: (1) human labour, (2) the subject of labour, and (3) the means of labour.

*Labour* is the purposeful activity of man, in the process of which he modifies and adapts the objects of nature to satisfy his needs. Work is a natural necessity, an indispensable condition for human existence. Without work, human life itself would be impossible.

*The object of labour* is everything to which man's labour is directed. Subjects of labour can be directly given by nature itself, for example, a tree that is cut down in the forest, or ore that is extracted from the bowels of the earth. Subjects of labour which have previously been exposed to labour, such as ore in a metallurgical plant, cotton in a spinning mill, are called raw materials.

*The instruments of labour* are all those things by means of which man acts upon the object of his labour and modifies

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<sup>1</sup> The name "political economy" comes from the Greek words "politeia" and "oikonomy". The word "politeia" means "social structure." The word "oikonomia" in turn consists of two words: "oikos"—house, household, and "nomos"—law. The name "political economy" appeared only at the beginning of the XX century.

it. The instruments of labour are, first of all, instruments of production, as well as land, industrial buildings, roads, canals, warehouses, etc. Instruments of production play a decisive role in the composition of the means of labour. These include the various tools that man uses in his labour activity, from the crude stone tools of primitive people to modern machines. The level of development of the instruments of production serves as a measure of society's power over it. nature, a measure of the development of production. Economic epochs differ not in what is produced, but in how it is produced, by what instruments of production.

The subjects of labour and instruments of labour constitute the means of production. The *means of production* in themselves, apart from connection with labour-power, are only a heap of dead things. In order for the labour process to begin, labour-power must be combined with the instruments of production.

*Labour power* is man's ability to work, the totality of man's physical and spiritual forces, thanks to which he is able to produce material goods. Labour-power is an active element of production, it sets in motion the means of production. With the development of the tools of production, the ability of man to work, his skill, skills, and production experience also develop.

The instruments of production with the help of which material goods are produced, the people who set these instruments in motion and carry out the production of material goods by means of a certain production experience and skills for work, constitute *the productive forces* of society. The toiling masses are the main productive force of human society at all stages of its development.

The productive forces express the attitude of people to the objects and forces of nature used for the production of material goods. However, in production, people affect not only nature, but also each other. "They cannot produce without uniting in a certain way for joint activity and for the

mutual exchange of their activities. In order to produce, people enter into certain connections and relations, and it is only through these social ties and relations that their relation to nature exists, production takes place.”<sup>2</sup> Certain connections and relations of people in the process of production of material goods constitute relations of *production*.

The nature of the relations of production depends on who owns the means of production (land, forests, waters, mineral resources, raw materials, instruments of production, production buildings, means of communication and communication, etc.)—in the ownership of individuals, social groups or classes who use these means to exploit the workers, or in the ownership of society, the purpose of which is to satisfy the material and cultural needs of the masses of the people. of the whole society. The state of the relations of production shows how the means of production are distributed among the members of society, and consequently also the material goods produced by men. Thus, the basis of the relations of production is a certain form of ownership of the means of production.

The relations of production also determine the corresponding relations of distribution. *Distribution* is the link between production and consumption.

The products produced in society serve industrial or personal consumption. *Productive consumption refers to* the use of the means of production to create material wealth. *Personal consumption refers to* the satisfaction of a person’s needs for food, clothing, shelter, etc.

The distribution of produced articles of personal consumption depends on the distribution of the means of production. In capitalist society, the means of production belong to the capitalists, and therefore the products of labour also belong to the capitalists. The workers are

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<sup>2</sup> K. Marx, *Wage Labour and Capital*, K. Marx, F. Engels, *Selected Works*, vol. I, 1948, p. 63.

deprived of the means of production and, in order not to die of hunger, are forced to work for the capitalists, who appropriate the products of their labour. In a socialist society, the means of production are social property. In view of this, the products of labour belong to the workers themselves.

In social formations where there is commodity production, the distribution of material goods is carried out through the *exchange of commodities*.

Production, distribution, exchange, and consumption constitute a unity in which production plays a decisive role.

The totality of “the relations of production constitutes the economic structure of society, the real basis on which the juridical and political superstructure rises and to which certain forms of social consciousness correspond.”<sup>3</sup> Once born, the superstructure, in turn, exerts a reciprocal active influence on the base, accelerating or retarding its development.

Production has a technical and social side. The technical side of production is studied by natural and technical sciences: physics, chemistry, metallurgy, mechanical engineering, agronomy and others. Political economy studies the social side of production, the *socio-productive*, i.e., *economic, relations of people*. “Political economy,” wrote V. I. Lenin, “is not at all concerned with ‘production’, but with the social relations of people in production, with the social system of **production**.”<sup>4</sup>

Political economy studies the relations of production in their interaction with the productive forces. The productive forces and the relations of production, in their unity, form the *mode of production*.

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<sup>3</sup> Marx, Preface to A Critique of Political Economy, K. Marx, F. Engels, Selected Works, Vol. I, 1948, p. 322.

<sup>4</sup> V. I. Lenin, The Development of Capitalism in Russia, Works, vol. 3, pp. 40-41.

The productive forces are the most mobile and revolutionary element of production. The development of production begins with changes in the productive forces, first of all, with the change and development of the instruments of production, and then there are corresponding changes in the sphere of production relations. People's relations of production, developing in dependence on the development of the productive forces, in their turn actively influence the productive forces.

The productive forces of society can develop unhindered only if the relations of production correspond to the state of the productive forces. At a certain stage of their development, the productive forces outgrow the framework of the given relations of production and come into conflict with them.

As a result, the old relations of production are sooner or later replaced by new relations of production, corresponding to the level of development achieved and the nature of the productive forces of society. As the economic basis of society changes, so does its superstructure. The material prerequisites for the replacement of the old relations of production by new ones arise and develop in the depths of the old formation. The new relations of production open up space for the development of the productive forces.

Thus, the economic law of the development of society is the law of the *obligatory correspondence of the* relations of production to the character of the productive forces.

In a society based on private property and the exploitation of man by man, the conflicts between the productive forces and the relations of production manifest themselves in the class struggle. Under these conditions, the replacement of the old mode of production by a new one is effected by means of a social revolution.

Political economy is a historical science. It deals with material production in its historically determined social form, with the economic laws inherent in the corresponding

modes of production. Economic laws express the essence of economic phenomena and processes, the internal, causal connection and dependence existing between them. Each mode of production has its own basic economic law. The basic economic law determines the main aspects, the essence of a given mode of production.

Political economy “investigates first of all the special laws of each separate stage in the development of production and exchange, and only at the end of this investigation can it establish a few, quite general, laws applicable to production and exchange in **general**.”<sup>5</sup> Consequently, the various social formations in their development are determined not only by their specific economic laws, but also by those economic laws which are common to all formations, for example, by the law of the obligatory correspondence of the relations of production to the character of the productive forces. Consequently, social formations are not only separated from each other by specific economic laws inherent in a given mode of production, but are also connected with each other by certain economic laws common to all formations.

The laws of economic development are objective laws. They reflect processes of economic development that take place independently of the will of the people. Economic laws arise and operate on the basis of certain economic conditions. People can learn these laws and use them in the public interest, but they cannot destroy or create economic laws.

The use of economic laws in class society always has a class background: the advanced class of each new epoch uses economic laws in the interests of the development of society, while the moribund classes resist this.

Political economy studies the following historically known basic types of production relations: the primitive-communal system, *the slave-holding system, feudalism, capitalism, and*

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<sup>5</sup> F. Engels, *Anti-Dühring*, 1953, p. 138.

*socialism. The primitive-communal system is a pre-class social system. The slave-holding system, feudalism and capitalism are different forms of society based on the enslavement and exploitation of the working masses. Socialism is a social system free from the exploitation of man by man.*

Political economy investigates how development takes place from the lower stages of social production to its higher stages, how social orders based on the exploitation of man by man arise, develop, and are destroyed. It shows how the whole course of historical development prepares the way for the victory of the socialist mode of production. It further studies the economic laws of socialism, the laws of the origin of socialist society and its further development on the way to the higher phase of communism.

*Thus, political economy is the science of the development of socio-productive, i.e., economic, relations between people. It elucidates the laws that govern the production and distribution of material goods in human society at different stages of its development.*

The method of Marxist political economy is that of dialectical materialism. Marxist-Leninist political economy is based on the application of the basic principles of dialectical and historical materialism to the study of the economic structure of society.

Political economy, unlike the natural sciences (physics, chemistry, etc.), cannot make use of experiments in the study of the economic structure of society, experiments carried out in artificially created laboratory conditions that eliminate those phenomena that make it difficult to consider the process in its purest form. "In the analysis of economic forms," Marx pointed out, "neither a microscope nor chemical reagents can be used. Both must be replaced by the power of abstraction."<sup>6</sup>

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<sup>6</sup> K. Marx, *Capital*, Vol. I, 1953, p. 4.

Each economic system presents a contradictory and complex picture: it contains the remnants of the past and the germs of the future, and various economic forms are intertwined in it. The task of scientific research is to reveal behind the external appearance of economic phenomena by means of theoretical analysis the deep processes, the main features of the economy, which express the essence of the given relations of production.

The result of such scientific analysis is *economic categories*, i.e., concepts that represent the theoretical expression of the relations of production of a given social formation, such as commodity, money, capital, and others.

Thus, in his analysis of capitalist relations of production, Marx singled out first of all the simplest, most often repeated mass relation, the exchange of one commodity for another. He shows that in the commodity, this cell of capitalist economy, the contradictions of capitalism are laid in embryo. Proceeding from the analysis of the commodity, Marx explains the origin of money and reveals the process of the transformation of money into capital, the essence of capitalist exploitation. Marx shows how social development inevitably leads to the death of capitalism, to the victory of communism.

Marx's method consists in a gradual ascent from the simplest economic categories to the more complex ones, which corresponds to the progressive development of society along an ascending line, from the lowest to the highest. In this order of investigation of the categories of political economy, *logical* investigation is combined with a *historical* analysis of social development.

Political economy does not set itself the task of studying the historical process of the development of society in all its concrete diversity. It gives basic concepts of the fundamental features of each system of social economy.

Lenin pointed out that political economy must be expounded in the form of a description of successive periods



of economic development. Accordingly, in the present course of political economy, the main categories of political economy—commodity, money, capital, etc.—are considered in the historical sequence in which they arose at different stages of the development of human society. Thus, the elementary concepts of commodities and money are already given in the characterisation of pre-capitalist formations. In a detailed form, however, these categories are expounded in the study of developed capitalist economy.

As can be seen, political economy does not study any transcendental questions, detached from life, but the most real and urgent questions that affect the vital interests of people, society, and classes. Whether the death of capitalism and the victory of the socialist economic system are inevitable, whether the interests of capitalism are contrary to the interests of society and the progressive development of mankind, whether the working class is the gravedigger of capitalism and the bearer of the ideas of the emancipation of society from capitalism—all these and similar questions are solved by different economists in different ways, depending on the interests of which classes they reflect. This explains precisely why at the present time there is no single political economy for all classes of society, but there are several political economies: bourgeois political economy, *proletarian* political economy, and, lastly, the political economy of the *intermediate* classes, petty-bourgeois political economy.

But it follows from this that those economists are quite wrong who assert that political economy is a neutral, non-partisan science, that political economy is independent of the class struggle in society and is not directly or indirectly connected with any political party.

Is an objective, impartial political economy that is not afraid of the truth possible at all? Of course, it is possible. Such an objective political economy can only be the political economy of a class which is not interested in glossing over

the contradictions and ulcers of capitalism, which is not interested in preserving the capitalist order, whose interests merge with the interests of the liberation of society from capitalist slavery, whose interests lie on a par with the interests of the progressive development of mankind. Such a class is the working class. Therefore, an objective and disinterested political economy can only be a political economy which rests on the interests of the working class. Such is the political economy of Marxism-Leninism.

Marxist political economy is an essential component of Marxist-Leninist theory.

The great leaders and theoreticians of the working class, K. Marx and F. Engels, were the founders of proletarian political economy. In his brilliant work *Capital*, Marx revealed the laws of the origin, development, and death of capitalism and gave an economic justification for the inevitability of the socialist revolution and the establishment of the dictatorship of the proletariat. Marx and Engels elaborated in general terms the doctrine of the transition period from capitalism to socialism and of the two phases of communist society.

The economic doctrine of Marxism received further creative development in the works of V. I. Lenin, the founder of the Communist Party and the Soviet state and the brilliant successor of the work of Marx and Engels. Lenin enriched Marxist economics by generalizing the new experience of historical development, created the Marxist doctrine of imperialism, revealed the economic and political essence of imperialism, gave the basic principles of the basic economic law of modern capitalism, worked out the foundations of the doctrine of the general crisis of capitalism, created a new and complete theory of socialist revolution, and scientifically elaborated the basic problems of building socialism and communism.

Lenin's great comrade-in-arms and disciple, J. V. Stalin, advanced and developed a number of new propositions of political economy, basing himself on the fundamental works

of Marx, Engels, and Lenin, who created a truly scientific political economy.

Marxist-Leninist economic theory is creatively developed in the decisions of the Communist Party of the Soviet Union and in the works of Lenin's disciples and associates—the leaders of the Communist Party of the Soviet Union and the Communist and Workers' Parties of other countries.

Marxist-Leninist political economy is a powerful ideological weapon in the hands of the working class and all working humanity in their struggle for emancipation from capitalist oppression. The vital force of the economic theory of Marxism-Leninism lies in the fact that it equips the working class, the working masses, with knowledge of the laws of economic development of society, gives them clarity of perspective and confidence in the final victory of communism.

## CHAPTER I. THE PRIMITIVE- COMMUNAL MODE OF PRODUCTION

### **The Emergence of Human Society.**

The origin of man dates back to the beginning of the present, Quaternary period in the history of the Earth, which, according to science, is a little less than a million years old. In various regions of Europe, Asia, and Africa, which were characterised by warm and humid climates, there lived a highly developed breed of anthropoid apes. As a result of a very long development, embracing a series of transitional stages, man has evolved from these remote ancestors.

The advent of man was one of the greatest turning points in the development of nature. This change took place when man's ancestors *began to make* tools. The fundamental difference between man and animal begins only with the manufacture of tools, even the simplest ones. Some animals, such as monkeys, often use a stick or a stone to knock fruit off a tree, to protect themselves from attack. But no animal has ever made even the crudest tool. The conditions of everyday life pushed man's ancestors to make tools. Experience told them that the pointed stones could be used to defend against attack or to hunt animals. Man's ancestors began to make stone tools by striking one stone against another. This was the beginning of the manufacture of guns. Work begins with the making of tools.

Thanks to labour, the forelimbs of the anthropoid ape turned into the hands of a man. This is evidenced by the remains of an ape-man found by archaeologists—a transitional stage from ape to man. The ape-man's brain was much smaller than that of a man, and his hand was

comparatively little different from that of a man. Thus, the hand is not only an organ of labour, but also its product.

As the hands were freed for labour operations, the ancestors of man increasingly adopted an upright gait. When the hands were busy with work, the final transition to an upright gait took place, which played a very important role in the formation of man.

Man's ancestors lived in hordes, herds; The first people also lived in herds. But there arose between people a bond that did not exist and could not exist in the animal world: the bond of labour. People worked together to make tools and used them together. Consequently, the origin of man was at the same time the emergence of *human society*, the transition from a zoological state to a social one.

The joint work of people led to the emergence and development of articulate speech. *Language* is the means, the instrument, by which people communicate with each other, exchange opinions, and achieve mutual understanding.

The exchange of thoughts is a constant and vital necessity, since without it the joint actions of people in the struggle against the forces of nature are impossible, the very existence of social production is impossible.

Work and articulate speech had a decisive influence on the improvement of the human organism and on the development of the brain. The development of language is closely related to the development of thinking. In the process of work, a person's range of perceptions and ideas expanded, and his sense organs improved. Man's labour actions, in contrast to the instinctive actions of animals, began to have a conscious character.

Thus labour is "the first fundamental condition of all human life, and to such an extent that we must in a certain sense say that labour created man *himself*."<sup>7</sup> Thanks to work, human society arose and began to develop.

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<sup>7</sup> F. Engels, The role of labour in the process of transforming a monkey into a human, K. Marx, F. Engels, Selected Works, vol. II, 1948, p. 70.

## Conditions of Material Life. Development of Tools.

In the primitive epoch man was in the strongest dependence on the surrounding nature, he was completely overwhelmed by the difficulty of existence, the difficulty of the struggle with nature. The process of mastering the elemental forces of nature proceeded extremely slowly, since the tools of labour were the most primitive. Man's first tools were a rough-hewn stone and a stick. They were, as it were, an artificial extension of the organs of his body: a stone - a fist, a stick - an outstretched arm.

People lived in groups that did not exceed a few dozen people: a larger number could not feed together. When the groups met, there were sometimes clashes between them. Many groups died of starvation and fell prey to predatory animals. Under these conditions, living together was the only possible and absolutely necessary thing for people.

For a long time primitive man lived mainly by *gathering food* and by *hunting*, which were carried out collectively, with the help of the simplest tools. What was jointly extracted was also consumed jointly. As a result of the lack of food, cannibalism occurred among primitive people. Over the course of many millennia, as if by feeling, by means of an extremely slow accumulation of experience, people learned to make the simplest tools suitable for striking, cutting, digging, and other very simple actions, which at that time almost exhausted the entire field of production.

The great conquest of primitive man in the struggle with nature was the discovery of fire. At first, people learned to use fire, which arose spontaneously. They've seen lightning set fire to a tree, they've seen forest fires and volcanic eruptions. Accidentally obtained fire was stored for a long time and carefully. Only many millennia later, man learned the secret of making fire. With the more developed

production of tools, people noticed that fire is produced by friction and learned how to make it.

The discovery of fire and its use gave men dominion over certain forces of nature. Primitive man finally broke away from the animal world, and the long epoch of man's formation came to an end. Thanks to the discovery of fire, the conditions of material life of people have changed significantly. Firstly, fire was used for cooking, as a result of which the range of food items available to man expanded: it became possible to eat fish, meat, starchy roots, tubers, etc., cooked with the help of fire. Thirdly, fire provided protection from predatory animals.

For a long time, hunting remained the most important source of livelihood. It provided people with skins for clothing, bones for making tools, and meat food, which had an impact on the further development of the human body and, above all, on the development of the brain.

As man developed physically and mentally, he was able to make better tools. A stick with a pointed end was used for hunting. Then a stone tip was attached to the stick. Axes, stone-tipped spears, stone scrapers and knives appeared. These implements made possible the hunting of large animals and the development of fishing.

For a very long time, stone remained the main material for making tools. The era of the predominance of stone tools, dating back hundreds of millennia, is called *the Stone Age*. Only later did man learn to make tools from metal, first from native metal, primarily from copper (however, copper, as a soft metal, was not widely used for making tools), then from bronze (an alloy of copper and tin), and finally from iron. Accordingly, the Stone Age was followed by the *Bronze Age*, followed by the *Iron Age*.

The earliest traces of copper smelting in Western Asia date back to the 5th-4th millennia BC. In Southern and Central Europe, copper smelting originated approximately in

the 3rd - 2nd millennia BC. The oldest traces of bronze in Mesopotamia date back to the 4th millennium BC.

The earliest traces of iron smelting are found in Egypt; They date back to the period of one and a half thousand years BC. In Western Europe, the Iron Age began around a thousand years BC.

An important milestone on the way to improving tools was the invention of the *bow* and *arrows*, with the advent of which hunting began to provide more necessary means of subsistence. The development of hunting led to the birth of primitive *cattle breeding*. Hunters began to tame animals. The dog was domesticated before other animals, and later cattle, goats, and pigs.

A further major step in the development of society's productive forces was the emergence of primitive agriculture. Gathering the fruits and roots of plants, primitive people began to notice how seeds sprouted when dropped on the ground. Thousands of times this remained incomprehensible, but sooner or later a connection between these phenomena was established in the mind of primitive man, and he began to pass on to the cultivation of plants. This is how agriculture came into being.

For a long time, agriculture remained extremely primitive. The earth was loosened by hand, first with a simple stick, then with a stick with a curved end—a hoe. In river valleys, seeds were thrown into the silt brought by river floods. The domestication of animals opened up the possibility of using cattle as draught power. Later, when people mastered the smelting of metal and metal tools appeared, their use made agricultural labour more productive. Agriculture was given a firmer foundation. Primitive tribes began to adopt a settled way of life.



## Production Relations of Primitive Society. Natural Division of Labour.

The relations of production are determined by the nature and state of the productive forces.

In the primitive-communal system, the basis of production relations is the communal ownership of the means of production. Communal ownership corresponds to the character of the productive forces in this period. Tools of labour in primitive society were so primitive that they excluded the possibility of primitive people fighting with the forces of nature and predatory animals alone. "This primitive type of collective or co-operative production," Marx wrote, "was, of course, the result of the weakness of the individual, and not of the socialisation of the means of production."<sup>8</sup>

Hence the necessity of collective labour, common ownership of land and other means of production, as well as of the products of labour. Primitive people had no concept of private ownership of the means of production. Only a few instruments of production were in their personal possession, which at the same time served as instruments of protection against predatory animals.

The labour of primitive man did not create any surplus in excess of the most necessary for life, that is, no *surplus product*. Under such conditions, there could be no classes in primitive society and no exploitation of man by man. Public ownership extended only to small communities that existed more or less in isolation from each other. According to Lenin's characterisation, here the social character of production embraced only the members of one commune.

The labour activity of people of primitive society was based on simple cooperation (simple cooperation). *Simple co-*

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<sup>8</sup> Rough drafts of Marx's letter - V. I. Zasulich, K. Marx and F. Engels, Works, vol. XXVII, p. 681.

*operation* is the simultaneous employment of a more or less considerable quantity of labour-power for the performance of homogeneous work. Simple cooperation already opened up for primitive people the possibility of performing tasks that would have been unthinkable for a single person to perform (for example, when hunting large animals).

At that time, the extremely low level of development of the productive forces was inevitable and the *equalizing distribution* of the products of common labour was inevitable. The meagre food was divided equally. There could be no other division, since the products of labour were barely enough to satisfy the most urgent needs: if one member of the primitive community received more than an equal share for all, then someone else would be doomed to starvation and death.

The habit of equal sharing was deeply rooted among primitive peoples. It was observed by travellers who visited tribes at a low stage of social development. The great naturalist Darwin circumnavigated the globe more than a hundred years ago. Describing the life of the tribes in Tierra del Fuego, he tells the following story: the Fuegians were presented with a piece of linen; They tore the canvas into perfectly equal parts so that everyone would get an equal share.

Proceeding from the foregoing, it would be possible to formulate the *basic economic law of the primitive-communal system* in the following way: the provision of extremely poor living conditions for people with the help of primitive instruments of production by means of joint labour within the framework of one community and equalizing distribution of products.

With the development of the instruments of production, the division of labour emerged. Its simplest form was the natural division of labour, that is, *the division of labour* according to sex and age: between men and women, between adults, children, and the elderly.

The famous Russian traveller Miklouho-Maclay, who studied the life of the Papuans of New Guinea in the second half of the 19th century, describes the collective process of labour in agriculture in the following way. Several men stand in a row, stick their sharpened sticks deep into the ground, and then lift a block of earth with one swing. They are followed by women crawling on their knees. They have sticks in their hands, with which they crush the earth raised by the men. The women are followed by children of different ages, rubbing the ground with their hands. After loosening the soil, the women use small sticks to make holes in the ground and bury the seeds or roots of plants in them. Work here is cooperative, and at the same time there is a division of labour according to sex and age.

With the development of the productive forces, the natural division of labour was gradually strengthened and consolidated. The specialisation of men in the field of hunting, women in the field of gathering plant food and in the household led to a certain increase in labour productivity.

### **Tribal System. Matriarchal Gens. Patriarchal Gens.**

While the process of separating man from the animal world was going on, people lived in hordes, herds, like their immediate ancestors. But later, in connection with the emergence of the primitive economy and the growth of the population, *the clan organisation of society* was formed.

In those days, only people who were related to each other could unite for joint work. Primitive instruments of production limited the possibilities of collective labour to the narrow confines of a group of people bound together by kinship and common life. Primitive man was generally hostile

to anyone who was not related to him by kinship and common life. The clan was a group that at first consisted of only a few dozen people and was welded together by ties of blood kinship. Each such group existed separately from other similar groups. In the course of time, the number of the clan increased, reaching several hundred people: the habit of living together developed; The benefits of common labour increasingly compelled people to stick together.

Morgan, a researcher of the life of primitive people, described the clan system that was preserved among the Iroquois Indians in the middle of the last century. The main occupations of the Iroquois were hunting, fishing, gathering fruits and agriculture. Labour was divided between men and women. Hunting and fishing, making weapons and tools, clearing the ground, building huts and fortifications were the duties of men. Women performed the main work in the fields, harvested crops and delivered them to the storerooms, cooked food, made clothes and pottery, collected wild fruits, berries, nuts, tubers. The land was the common property of the clan. Larger-scale works - deforestation, clearing of land for arable land, large hunting expeditions - were carried out jointly. The Iroquois lived in so-called "big houses" that housed 20 or more families. Such a group had common storerooms where food supplies were stored. The woman at the head of the group distributed the food among the individual families.

For the duration of hostilities, the clan chose a military commander who did not enjoy any material advantages; With the end of hostilities, his power ceased.

At the first stage of the clan system, the leading position was occupied by women, which resulted from the conditions of people's material life at that time. Hunting with the most primitive tools, which was the business of men, could not fully sustain the existence of men: its results were more or less accidental. Under these conditions, even rudimentary forms of agriculture and cattle breeding (the domestication

of animals) were of great economic significance. These occupations served as a more reliable and constant source of livelihood than hunting. And agriculture and cattle breeding, so long as they were carried on in a primitive manner, were chiefly the occupation of the women, who remained at home, while the men hunted. For a long period of time, women played a dominant role in the tribal community. Kinship was considered to be on the maternal side. The boundaries of the clan community were narrow, it included the descendants of one woman. It was the *matriarchal or matriarchal clan (matriarchy)*.

In the course of the further development of the productive forces, when nomadic cattle breeding (pastoralism) and more developed agriculture (tillage), which were the work of men, began to play a decisive role in the life of the primitive community, the matriarchal clan was replaced by the paternal, or *patriarchal, clan (patriarchate)*. The dominant position passed to the man. He became the head of the tribal community. Kinship began to be counted on the paternal line. The boundaries of the community have significantly expanded in comparison with the maternal kind. The patriarchal clan existed in the last period of the primitive-communal system.

The absence of private property, the class division of society, and the exploitation of man by man precluded the possibility of the existence of the state.

“In primitive society... There are no signs of the existence of the state yet. We see the supremacy of custom, the authority, the respect, the authority exercised by the elders of the gens, we see that this power was sometimes recognised by women—the position of women at that time did not resemble the present powerless and oppressed position - but nowhere do we see a special class of people who set themselves apart to govern others and to possess in the interests of systematically, for the purpose of

government, a certain apparatus of coercion, the apparatus of violence.<sup>9</sup>

## **The Emergence of the Social Division of Labour and Exchange.**

With the transition to cattle breeding and agriculture, the social division of labour arose, i.e., *the division of labour* in which first different communities, and then individual members of communities, began to engage in heterogeneous types of productive activity. *The separation of pastoral tribes was the first major social division of labour.*

Pastoral tribes achieved considerable success in cattle breeding. They learned how to take care of cattle in such a way that they began to get more meat, wool, and milk. This first large-scale social division of labour led to a noticeable increase in labour productivity at that time.

In the primitive community, for a long time, there was no ground for exchange between its individual members: the entire product was obtained and consumed jointly. Exchange originated and developed at first between tribal communities and for a long time was of an occasional nature.

With the appearance of the first major social division of labour, the situation changed. Pastoral tribes had a certain surplus of livestock, dairy products, meat, hides, and wool. At the same time, they were in need of agricultural products. In turn, the tribes engaged in agriculture achieved certain successes in the production of agricultural products in the course of time. Farmers and herders needed items that they

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<sup>9</sup> V. I. Lenin, *On the State*, Essays, vol. 29, p. 437.

could not get at their place of residence. All this led to the development of exchange.

Along with agriculture and cattle breeding, other types of production activities were also developed. Back in the era of stone tools, people learned to make pottery from clay. Then came hand weaving. Finally, with the discovery of iron smelting, it became possible to manufacture metal tools (a plough with an iron ploughshare, an iron axe) and weapons (iron swords). It became more and more difficult to combine these types of labour with agricultural or pastoral labour. In the communities, people who were engaged in crafts gradually stood out. The products of artisans - blacksmiths, gunsmiths, potters, etc. - increasingly began to come into exchange. The field of exchange has expanded significantly.

### **The Emergence of Private Property and Classes. Disintegration of the Primitive-Communal System.**

The primitive-communal system reached its zenith under matriarchy. The patriarchal clan already harboured the rudiments of the disintegration of the primitive-communal system.

Up to a certain period the production relations of the primitive-communal system were in accordance with the level of development of the productive forces. At the last stage of patriarchy, with the appearance of new, more perfect instruments of production (the Iron Age), the relations of production of primitive society ceased to correspond to the new productive forces. The narrow framework of communal ownership and the egalitarian distribution of the products of labour began to hinder the development of new productive forces.

Previously, it was possible to cultivate the field only by the joint work of dozens of people. Under such conditions, common labour was a necessity. With the development of the instruments of production and the increase in the productivity of labour, one family was able to cultivate a piece of land and provide itself with the necessary means of subsistence. Thus, the improvement of the instruments of production created the possibility of a transition to individual farming, as it was more productive in those historical conditions. The need for joint labour and communal farming increasingly disappeared. If common labour required common ownership of the means of production, individual labour required private ownership.

The emergence of private property is inseparably linked with the social division of labour and with the development of exchange. At first, the exchange was carried out by the heads of tribal communities—elders and patriarchs. They acted in barter transactions as representatives of the communities. What they exchanged was the property of the community. But with the further development of the social division of labour and the expansion of exchange, the tribal chiefs gradually began to treat the communal property as their property.

In the beginning, cattle were the main object of exchange. Pastoral communities had large herds of sheep, goats, and *cattle*. The elders and patriarchs, already wielding great power in society, were accustomed to disposing of these flocks as if they were their own. Their de facto right to dispose of the herds was also recognised by the rest of the community. In this way, cattle became *private property* first, and then gradually all instruments of production. Common ownership of land lasted the longest.

The advent of private property led to the disintegration of the gens. The clan broke up into large patriarchal families. Then, within the large patriarchal family, separate family units began to emerge, which turned the instruments of



production, utensils, and livestock into their private property. With the growth of private property, clan ties weakened. The place of the clan community began to be taken by the rural community. The village, or neighbour, community, in contrast to the clan, consisted of people who were not necessarily related by kinship. The house, the household, the cattle were all privately owned by individual families. On the contrary, the forest, the meadow, the water, and other lands, and for a certain period of time the arable land, were communal property. Initially, the arable land was periodically redistributed among community members, and later it became private property.

The emergence of private property and exchange was the beginning of a profound revolution in the entire structure of primitive society. The development of private property and property differences led to the fact that different groups of community members had different interests within the communities. Under these conditions, those who held the positions of elders, military leaders, and priests in the community used their position for the purpose of enrichment. They took possession of a large share of communal property. The holders of these public positions were more and more separated from the mass of community members, forming the clan nobility and more and more often passing on their power by inheritance. At the same time, the noble families became the richest families. The mass of community members gradually fell into one or another economic dependence on the rich and noble elite.

With the growth of productive forces, human labour used in cattle breeding and agriculture began to provide more means of subsistence than was necessary to sustain human life. It became possible to appropriate *surplus* labour and *surplus product*, i.e. surplus labour and product in excess of what is required to feed the worker himself. Under these conditions, it turned out to be advantageous not to kill the captured people, as had been done before, but to force them

to work, turning them into slaves. Slaves were captured by more noble and wealthy families. In turn, slave labour led to a further increase in inequality, as households that used slaves quickly became rich. In the face of growing wealth inequality, the rich began to enslave not only captives, but also their impoverished and indebted fellow tribesmen. This is how the first *class division of society* arose - the division into slave-holders and slaves. The *exploitation* of man by man appeared, that is, the gratuitous appropriation by some people of the products of the labour of other people.

The production relations of the primitive-communal system disintegrated, perished and gave way to new production relations that corresponded to the nature of the new productive forces.

Common labour gave way to individual labour, social ownership to private property, and the clan system to class society. From this period onwards, the entire history of mankind up to the construction of socialist society has become the history of the *class struggle*.

Bourgeois ideologues portray the matter as if private property had existed from eternity. History refutes these fabrications and convincingly testifies to the fact that all peoples passed through the stage of the primitive-communal system, based on common property and without private property.

## **Social Conceptions of the Primitive Epoch**

Primitive man, oppressed by want and the difficulty of the struggle for existence, did not at first distinguish himself from the surrounding nature. For a long time he had no coherent conception of himself or of the natural conditions of his existence.

Only gradually does primitive man begin to develop very limited and primitive ideas about himself and his

surroundings. There could be no question of any religious views that were inherent in the human mind, as the defenders of religion assert. Only later did primitive man begin to populate the world around him with supernatural beings, spirits, and magical powers. He spiritualized the forces of nature. This was the so-called animism (from the Latin word “anima” - soul). Out of these dark conceptions of man’s own and external natures were born primitive myths and primitive religion. They reproduced the primitive egalitarianism of the social system. Ignorant of class divisions and inequality of property in real life, primitive man did not introduce any subordination into the imaginary world of spirits. He divided spirits into friends and foes, friendly and hostile. The division of spirits into higher and lower appeared already in the period of the disintegration of the primitive-communal system. Primitive man felt himself to be an inseparable part of the tribal community, he did not think of himself outside the clan. This was reflected in ideology by the cult of ancestors. Characteristically, in the course of language development, the words “I” and “my” appear much later than other words. The power of the tribal community over the individual was extremely strong. The disintegration of the primitive-communal system was accompanied by the emergence and spread of private property ideas. This was vividly reflected in myths and religious beliefs. When private property relations began to take shape and property inequality appeared, many tribes developed the custom of imposing a religious prohibition—“taboo”—on property appropriated by chiefs or wealthy families (the word “taboo” was used by the inhabitants of the Pacific Islands to designate everything forbidden, withdrawn from common use). With the disintegration of the primitive-communal system and the emergence of private property, the power of religious prohibition began to be used to consolidate the economic relations that had arisen and property inequality.

## BRIEF CONCLUSIONS

1. Through work, human beings emerged from the animal kingdom and human society emerged. A distinctive feature of human labour is the manufacture of instruments of production.

2. The productive forces of primitive society were at an extremely low level, the instruments of production were extremely primitive. This necessitated collective labour, social ownership of the means of production, and egalitarian distribution. Under the primitive-communal system, there was no property inequality, no private ownership of the means of production, no classes and no exploitation. Social ownership of the means of production was confined to a narrow framework: it was the property of small communities, more or less isolated from each other.

3. The essential features of the basic economic law of the primitive-communal system are: provision of extremely poor living conditions for people with the help of primitive instruments of production by means of joint labour within the framework of one community and equalizing distribution of products.

4. Working together, people have long performed homogeneous labour. The gradual improvement of the instruments of production contributed to the emergence of a natural division of labour depending on sex and age. Further improvement of the instruments of production and the method of obtaining means of subsistence, the development of cattle breeding and agriculture led to the emergence of the social division of labour and exchange, private property and property inequality, to the division of society into classes and to exploitation man by man. Thus, the increased productive forces came into conflict with the production relations, as a result of which the primitive-communal system gave way to another type of production relations - the slave-holding system.

## CHAPTER II. THE SLAVE-HOLDING MODE OF PRODUCTION

### **Emergence of the Slave-Holding System.**

Slavery is the first and crudest form of exploitation in history. It existed in the past among almost all peoples.

For the first time in the history of mankind, the transition from the primitive-communal system to the slave-holding system took place in the countries of the ancient East. The slave-holding mode of production prevailed in Mesopotamia (the Sumerian state, Babylonia, Assyria, and others), in Egypt, India, and China as early as the 4th-2nd millennia BC. In the first millennium B.C., the slave-holding mode of production prevailed in Transcaucasia (the state of Urartu), from the VIII-VII centuries BC to the V-VI centuries AD, there was a strong slave-holding state in Khorezm. The culture achieved in the slave-holding countries of the ancient East had a great influence on the development of the peoples of European countries.

In Greece, the slave-holding mode of production reached its heyday in the 5th-4th centuries BC. Subsequently, slavery developed in the states of Asia Minor, Egypt, and Macedonia (4th-1st centuries BC). The slave-holding system reached its highest stage of development in Rome in the period from the II century BC to the II century AD.

At first, slavery had a *patriarchal, domestic* character. Slaves were comparatively few. Slave labour was not yet the basis of production, but played an auxiliary role in the economy. The purpose of the economy was to satisfy the needs of the large patriarchal family, which almost did not resort to exchange. The master's power over his slaves was already unlimited, but the field of slave labour remained limited.

The transition of society to the slave-holding system was based on the further growth of productive forces, the development of the social division of labour and exchange.

The transition from stone to metal tools led to a significant expansion of the scope of human labour. The invention of blacksmith's bellows made it possible to make iron tools of unprecedented strength. With the help of an iron axe, it became possible to clear the land from forests and shrubs for arable land. A plough with an iron ploughshare made it possible to cultivate relatively large plots of land. Primitive hunting economy gave way to agriculture and cattle breeding. Crafts appeared.

In agriculture, which remained the main branch of production, the methods of agriculture and cattle breeding improved. New branches of agriculture arose: viticulture, flax growing, the cultivation of oilseeds, and so on. More and more workers were needed to take care of the livestock. Weaving, metalworking, pottery and other crafts were gradually improved. Previously, the craft was an auxiliary occupation of the farmer and cattle breeder. Now it has become an independent occupation for many people. There was a *separation of handicrafts from agriculture*.

This was the *second* great social division of labour.

With the division of production into two major main branches, agriculture and handicrafts, production for exchange arises, though still in an undeveloped form. The growth of labour productivity led to an increase in the mass of surplus product, which, with private ownership of the means of production, created the possibility of accumulating wealth in the hands of a minority of society and, on this basis, subordinating the working majority to the exploiting minority, turning the working people into slaves.

The economy under slavery was basically *subsistence*, in which the products of labour were consumed within the framework of the same economy in which they were produced. But at the same time, there was a development of

exchange. Artisans produced their wares first to order and then to sell in the market. At the same time, many of them continued to have small plots of land for a long time and cultivate them to meet their needs. Peasants were mainly subsistence farmers, but had to sell some of their produce on the market in order to be able to buy handicrafts and pay cash taxes. Thus, gradually, a part of the products of the labour of artisans and peasants became a commodity.

A *commodity* is a product made not for direct consumption, but for exchange, for sale on the market. The production of products for exchange is a characteristic feature of *commodity economy*. Thus, the separation of handicraft from agriculture, the emergence of handicraft as an independent craft signified the origin of commodity production.

As long as the exchange was accidental, one product of labour was directly exchanged for another. As exchange expanded and became a regular phenomenon, a commodity was gradually distinguished for which any other commodity was willingly given. That's how money came into being. *Money* is the universal commodity by which all other commodities are valued, and which serves as an intermediary in exchange.

The development of handicrafts and exchange led to the formation of cities. Cities arose in ancient times, at the dawn of the slave-holding mode of production. In the beginning, cities were not much different from villages. But gradually, crafts and trade were concentrated in the cities. By the occupation of the inhabitants and by their way of life, the cities were more and more separated from the countryside.

This was the beginning of the *separation of the city from the countryside and the emergence of an opposition* between them.

As the mass of commodities exchanged increased, so did the territorial scope of exchange. There were *merchants* who, in pursuit of profit, bought goods from

producers, brought goods to markets, sometimes quite far from the place of production, and sold them to consumers.

The expansion of production and exchange greatly increased wealth inequality. In the hands of the rich, money, draught animals, tools of production, and seeds were accumulated. The poor were increasingly forced to turn to them for loans, mostly in kind, and sometimes in cash. The rich lent instruments of production, seeds, and money, enslaving their debtors, and in case of non-payment of debts, they enslaved them and took away their land. This is how *usury* came into being. It brought a further increase in wealth to some, debt bondage to others.

Land also began to turn into private property. They began to sell it and mortgage it. If the debtor could not pay the moneylender, he had to abandon the land, sell his children and himself into slavery. Sometimes, finding fault with something, large landowners seized part of the meadows and pastures from peasant rural communities.

This was the concentration of landed property, monetary wealth, and the mass of slaves in the hands of rich slaveholders. Small peasant farming became more and more ruined, and slave-holding economy grew stronger and expanded, spreading to all branches of production.

“The incessant growth of production, and with it the productivity of labour, has increased the value of human labour; Slavery, which had just arisen and was sporadic in the previous stage of development, now becomes an essential component of the social system; slaves cease to be mere helpers; Dozens of them are now being driven to work in the fields and workshops.”<sup>10</sup> Slave labour became the basis of society’s existence. Society split into two main opposing classes - slaves and slaveholders.

This is how *the slave-holding mode of production* was formed.

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<sup>10</sup> F. Engels, *The Origin of the family, Private Property and the State*, K. Marx, F. Engels, *Selected Works*, vol. II, 1948, p. 296.



Under the slave-holding system, the population was divided into free and slaves. The free enjoyed all civil, property, and political rights (with the exception of women, who were in fact in a position of slavery). Slaves were deprived of all these rights and had no access to the free. The free, in turn, were divided into the class of large landowners, who were at the same time large slave-holders, and the class of small producers (peasants, artisans), whose well-to-do strata also used slave labour and were slave-holders. The priests, who played an important role in the era of slavery, were attached to the class of large landowners, slaveholders.

Along with the class contradiction between slaves and slaveholders, there was also a class contradiction between the big landowners and the peasants. But, since with the development of the slave-holding system, slave labour, as the cheapest labour, embraced most of the branches of production and became the main basis of production, the contradiction between slaves and slave-holders turned into the main contradiction of society.

The division of society into classes necessitated the state. With the growth of the social division of labour and the development of exchange, individual clans and tribes became more and more close, uniting in unions. The nature of tribal institutions was changing. The organs of the gentile system were increasingly losing their national character. They were transformed into organs of domination over the people, into organs of plunder and oppression of their own and neighbouring tribes. The elders and military commanders of clans and tribes became *princes* and kings. Previously, they enjoyed authority as elected representatives of the clan or the union of clans. Now they began to use their power to protect the interests of the propertied elite, to restrain their ruined relatives, to suppress slaves. This purpose was served by armed squads, courts, and punitive bodies.

This is how *state power* was born.

“Only when the first form of division of society into classes appeared, when slavery appeared, when it was possible for a certain class of people, concentrating on the crudest forms of agricultural labour, to produce a certain surplus, when this surplus was not absolutely necessary for the most miserable existence of the slave and fell into the hands of the slave-holder, when, therefore, the existence of this class of slave-holders was established, and so that it was consolidated, it was necessary for the state to appear.”<sup>11</sup>

The state came into being in order to keep the exploited majority in check in the interests of the exploiting minority.

The slave-holding state played an important role in the development and consolidation of production relations of slave-holding society. The slave-holding state kept the masses of slaves in obedience. It has grown into a wide-ranging apparatus of domination and violence over the masses of the people. Democracy in ancient Greece and Rome, which is extolled in bourgeois history textbooks, was essentially a slave-holding democracy.

## **Production Relations of the Slave-Holding System. The Status of Slaves.**

The production relations of slave-holding society were based on the fact that slave-holders owned not only the means of production, but also the workers of production - slaves. A slave was considered a thing, he was at the complete and undivided disposal of the owner. Slaves were not only exploited, they were sold, bought like cattle, and even killed with impunity. If in the period of patriarchal slavery a slave was considered as a member of the family,

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<sup>11</sup> V. I. Lenin, *On the State, Essays*, vol. 29, p. 441.

then under the conditions of the slave-holding mode of production he was not even considered a person.

«The slave did not sell his labour power to *the slaveholder*, just as the ox does not sell his labour to the peasant. The slave, together with his labour-power, is sold once and for all to his master.”<sup>12</sup>

Slave labour was openly coercive. Slaves were forced to work by the most brutal physical violence. They were whipped to work and severely punished for the slightest omission. Slaves were branded so that they could be more easily caught while escaping. Many of them wore non-removable iron collars, on which the owner's surname was indicated.

The slave-holder appropriated the entire product of slave labour. He gave the slaves only the smallest amount of means of subsistence, so that they would not die of hunger and could continue to work for the slaveholder. The slaveholder received not only the surplus product, but also a significant part of the necessary product of the slaves' labour.

The development of the slave-holding mode of production was accompanied by an increase in the demand for slaves. In a number of countries, slaves generally did not have a family. The predatory exploitation of slaves led to their rapid physical deterioration. It was necessary to replenish the number of slaves all the time. War was an important source of obtaining new slaves. The slave-holding states of the ancient East waged constant wars in order to subjugate other peoples. The history of ancient Greece is full of wars between individual city-states, between metropolises and colonies, between Greek and Eastern states. Rome waged incessant wars; In its heyday, it conquered most of the lands known at that time. Not only warriors who were

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<sup>12</sup> K. Marx, *Wage Labour and Capital*, K. Marx, F. Engels, *Selected Works*, vol. I, 1948, p. 57.

taken prisoner were enslaved, but also a significant part of the population of the conquered lands.

Another source of slaves was the provinces and colonies. They supplied slaveholders with “living goods” along with all sorts of other goods. The slave trade was one of the most profitable and prosperous branches of economic activity. Special centres of the slave trade were formed; Fairs were held, which brought together merchants and buyers from distant countries.

The slave-holding mode of production opened up wider opportunities for the growth of productive forces in comparison with the primitive-communal system. The concentration of a large number of slaves in the hands of the slave-holding state and individual slave-holders made it possible to use simple cooperation of labour on a large scale. This is evidenced by the preserved gigantic structures that were erected in antiquity by the peoples of Asia, the Egyptians, the Etruscans: irrigation systems, roads, bridges, military fortifications, cultural monuments.

The social division of labour developed, expressed in the specialisation of agricultural and handicraft production, which created conditions for increasing labour productivity.

In Greece, slave labour was widely used in handicraft production. Large workshops - *ergasteria* - appeared, in which several dozen slaves worked. Slave labour was also used in construction, in the extraction of iron ore, silver and gold. In Rome, slave labour was widespread in agriculture. The Roman nobility owned vast estates—*latifundia*, where hundreds and thousands of slaves worked. These *latifundia* were created by seizing peasant as well as free state lands.

Slave-holding *latifundia*, due to the cheapness of slave labour and the use of the advantages of simple cooperation of labour to a certain extent, were able to produce grain and other agricultural products at lower costs than small farms of free peasants. The small peasantry was ousted, enslaved, or

joined the ranks of the mendicant strata of the urban population, the lumpen-proletariat.

On the basis of slave labour, the ancient world achieved significant economic and cultural development. But the slave-holding system could not create conditions for further more or less serious technical progress, since production was carried out on the basis of slave labour, which was characterised by extremely low productivity. The slave was not in the least interested in the results of his work. Slaves hated their enslavement. They often expressed their protest and indignation by damaging the tools. Therefore, slaves were given only the crudest tools, which were difficult to spoil.

The technique of production based on slavery remained at a very low level. In spite of the well-known development of the natural and exact sciences, they were almost never used in production. Some technical inventions were used only in military affairs and construction. During a number of centuries of its domination, the slave-holding mode of production did not go beyond the use of hand tools borrowed from the small farmer and artisan, beyond the simple cooperation of labour. The main motive force remained the physical strength of people and livestock.

The widespread use of slave labour allowed slave-holders to free themselves from all physical labour and completely shift it to slaves. Slaveholders treated labour with contempt, considered it an occupation unworthy of a free man, and led a parasitic lifestyle. With the development of slavery, more and more masses of the free population became detached from all productive activity. Only a certain part of the slave-holding elite and other free population was engaged in state affairs, sciences and arts.

Thus, the slave-holding system gave rise *to an opposition between physical and mental labour*, a gap between them.

Exploitation of slaves by slave-holders is the main feature of production relations of slave-holding society. At the same

time, the slave-holding mode of production in different countries had its own peculiarities.

In the countries of the ancient East, subsistence farming prevailed to an even greater extent than in the ancient world. Here, slave labour was widely used in state farms, the farms of large feudal lords, and temples. Domestic slavery was highly developed. In the agriculture of China, India, Babylonia, and Egypt, along with slaves, huge masses of peasant community members were exploited. The system of indentured debt slavery has acquired great importance here. A peasant community member, who did not pay his debt to the lender-usurer or the landowner's rent, was forced to work in their farm for a certain time as a slave-debtor.

In the slave-holding countries of the ancient East, communal and state forms of land ownership were widespread. The existence of these forms of ownership was associated with a system of agriculture based on irrigation. Irrigated agriculture in the river valleys of the East required enormous labour expenditures for the construction of dams, canals, reservoirs, and drainage of swamps. All this necessitated the centralisation of the construction and use of irrigation systems on a large scale. "Agriculture here is mainly based on artificial irrigation, and this irrigation is already a matter for the commune, the region, or the central government."<sup>13</sup> With the development of slavery, communal lands were concentrated in the hands of the state. The supreme owner of the land was the king, who had unlimited power.

Concentrating the ownership of land in its hands, the state of slave-holders imposed huge taxes on the peasants, forced them to perform various kinds of duties, thereby making the peasants slave-dependent. The peasants remained members of the community. But when the land was concentrated in the hands of the slave-holding state, the

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<sup>13</sup> F. Engels, Letter to Karl Marx on June 6, 1853, by Karl Marx and F. Engels, Works, vol. XXI, p. 494.

commune was a solid basis for Oriental despotism, i.e., the unlimited autocratic power of the monarch-despot. The priestly aristocracy played an enormous role in the slave-holding countries of the East. The vast farms belonging to the temples were conducted on the basis of slave labour.

Under the slave-holding system in all countries, slave-holders spent the overwhelming part of slave labour and its product unproductively: on satisfying personal whims, accumulating treasures, building military fortifications and army, on building and maintaining luxurious palaces and temples. The unproductive expenditure of huge masses of labour is evidenced, in particular, by the Egyptian pyramids that have survived to the present day. Only a small part of slave labour and its product was expended in the further expansion of production, which consequently developed extremely slowly. Devastating wars led to the destruction of the productive forces, the extermination of vast masses of the civilian population, and the destruction of the culture of entire states.

The essential features of the basic economic law of the slave-holding system are approximately as follows: appropriation by *slave-holders* of surplus product for their parasitic consumption by means of predatory exploitation of the mass of slaves on the basis of full ownership of the means of production and slaves, by ruin and enslavement of peasants and artisans, as well as by conquest and enslavement of the peoples of other countries.

## **Further Development of the Exchange. Trade and Usurious Capital.**

The slave-holding economy was mainly subsistence in nature. Products were produced in it mainly not for the purpose of exchange, but for the direct consumption of the

slave-holder, his numerous hangers-on and servants. Nevertheless, exchange gradually began to play a more prominent role, especially in the period of the highest development of the slave-holding system. In a number of branches of production, a certain proportion of the products of labour were regularly sold on the market, i.e., converted into commodities.

With the expansion of exchange, the role of money increased. Usually, the commodity, which was the most common object of exchange, was singled out as money. In many nations, especially among cattle breeders, cattle were at first used as money. For others, salt, grain, and furs became money. Gradually, all other forms of money were supplanted by metallic money.

For the first time, metal money appeared in the countries of the ancient East: Money in the form of bronze, silver and gold ingots circulated here as early as the III-II millennia BC, and in the form of coins - from the VII century BC. In Greece, eight centuries before our era, iron money was in circulation. In Rome, as early as the 5th and 4th centuries BC, only copper money was used. Subsequently, iron and copper as money were replaced by silver and gold.

In silver and gold, all the advantages of metals, by virtue of which they are most suitable for the performance of the role of money, are especially strongly expressed: homogeneity of matter, divisibility, preservation, and insignificance of volume and weight at a high value. Therefore, the role of money was firmly entrenched in precious metals, and ultimately in gold.

The Greek city-states carried on quite extensive trade, including with the Greek colonies scattered along the Mediterranean and Black Sea coasts. The colonies regularly supplied the main labour force—slaves, certain types of raw materials and means of subsistence: leather, wool, livestock, bread, fish.



In Rome, as in Greece, in addition to the trade in slaves and other goods, the trade in luxury goods played an important role. These articles were brought from the East chiefly by means of all kinds of tribute exacted from the conquered peoples. Trade was associated with plunder, sea robbery, and the enslavement of colonies.

Under the conditions of the slave-holding system, money was no longer only a means of buying and selling goods. They also began to serve as a means of appropriating the labour of others through trade and usury. The money expended for the purpose of appropriating surplus labour and its product becomes capital, i.e., a means of exploitation. Trade and usurious capital have historically been the first types of capital. *Mercantile* capital is capital employed in the sphere of exchange of commodities. Merchants, buying and reselling goods, appropriated a significant part of the surplus product created by slaves, small peasants and artisans. *Usurious capital* is capital used in the form of loans of money, means of production or consumer goods for the appropriation of surplus labour of peasants and artisans by charging high interest. Usurers also provided money loans to the slave-holding nobility, thus participating in the division of the surplus product received by them.

### **Aggravation of the contradictions of the slave-holding mode of production.**

Slavery was a necessary stage in the development of mankind. "Only slavery made possible on a larger scale the division of labour between agriculture and industry, and thus created the conditions for the flourishing of the culture of the ancient world, for Greek culture. Without slavery there would have been no Greek state, no Greek art and no science; Without slavery, there would have been no Roman

state. And without the foundations laid by Greece and Rome, there would be no modern Europe.”<sup>14</sup>

On the bones of generations of slaves, a culture grew, which formed the basis for the further development of mankind. Many branches of knowledge—mathematics, astronomy, mechanics, architecture—reached a significant development in the ancient world. Objects of art left over from antiquity, works of fiction, sculpture, architecture have forever entered the treasury of human culture.

But the slave-holding system was fraught with insurmountable contradictions that led to its destruction. The slave-holding form of exploitation destroyed the main productive force of this society—slaves. The struggle of the slaves against cruel forms of exploitation was increasingly expressed in armed uprisings. The condition for the existence of the slave-holding economy was a continuous influx of slaves and their cheapness. Slaves were brought mainly by war. The basis of the military power of the slave-holding society was the mass of free small producers - peasants and artisans. They served in the army and bore on their shoulders the brunt of the taxes necessary to wage wars. But as a result of the competition of large-scale production, based on cheap slave labour, and under the burden of unbearable hardships, peasants and artisans were ruined. The irreconcilable contradiction between the large latifundia and the peasant farms deepened.

The ousting of the free peasantry undermined not only the economic, but also the military and political power of the slave-holding states, in particular Rome. Victories were replaced by defeats. Wars of conquest were replaced by defensive ones. The source of the incessant supply of cheap slaves had dried up. The negative aspects of slave labour became more and more apparent. In the last two centuries of the Roman Empire, there was a general decline in production. Trade was in disarray, the formerly rich lands

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<sup>14</sup> F. Engels, *Anti-Dühring*, 1953, p. 169.

became impoverished, the population began to decrease, crafts perished, and cities fell into desolation.

Large-scale slave-holding production became economically unprofitable. Slaveholders began to set free large groups of slaves whose labour no longer provided income. Large estates were divided into small plots. These plots were transferred under certain conditions either to former slaves who had been set free, or to previously free citizens, who were now obliged to bear a number of duties in favour of the landowner. New farmers were attached to land plots and could be sold with them. But they were no longer slaves.

It was a new stratum of small producers, who occupied an intermediate position between free and slaves, and who had some interest in labour. They were called *colons* and were the forerunners of medieval serfs.

Thus, in the depths of slave-holding society, elements of a new, feudal mode of production were born.

### **The Class Struggle of the Exploited Against the Exploiters. Slave Revolts. The Death of the Slave-Holding System.**

The relations of production based on slavery became shackles for the growing productive forces of society. The labour of slaves, who were not at all interested in the results of production, had outlived its usefulness. There was a historical need to replace slave-holding production relations with other production relations, which would change the position of the main productive force - the toiling masses - in society. The law of the obligatory correspondence of the relations of production to the character of the productive forces required the replacement of slaves by workers who were to some extent interested in the results of their labour.

The history of slave-holding societies in the countries of the ancient East, Greece and Rome shows that with the development of the slave-holding economy, the class struggle of the enslaved masses against their oppressors intensified. Slave revolts were intertwined with the struggle of the exploited small peasants against the slave-holding elite, the large landowners.

The contradiction between the small producers and the large noble landowners gave rise to a democratic movement among the free, which aimed at the abolition of debt bondage, the redistribution of land, the abolition of the pre-emptive rights of the landed aristocracy, and the transfer of power to the demos (i.e., the people).

Of the numerous slave revolts in the Roman Empire, the most significant was the revolt led by Spartacus (74-71 BC). His name is associated with the brightest page in the history of the struggle of slaves against slave-holders.

Over the centuries, slave revolts have erupted repeatedly. The slaves were joined by impoverished peasants. These revolts reached a particular strength in the 2nd-1st centuries B.C. and in the 3rd-5th centuries A.D. Slaveholders suppressed rebellions with the most ferocious measures.

The revolts of the exploited masses, especially the slaves, fundamentally undermined the former power of Rome. Blows from within began to become more and more intertwined with blows from without. Enslaved inhabitants of neighbouring lands rebelled in the fields of Italy, and at the same time their fellow tribesmen, who remained at large, stormed the borders of the empire, invaded its borders, and destroyed Roman rule. These circumstances hastened the collapse of the slave-holding system in Rome.

In the Roman Empire, the slave-holding mode of production reached its highest development. The death of the Roman Empire was also the death of the slave-holding system as a whole.

The slave-holding system was replaced by the feudal system.

## **Economic Views of the Slave Era**

The economic views of the slave-holding period were reflected in many literary monuments left by poets, philosophers, historians, statesmen and public figures. According to these leaders, the slave was not considered a person, but a thing in the hands of the master. Slave labour was despised. And since labour became predominantly the lot of slaves, it followed from this a contempt for labour in general as an activity unworthy of a free man.

The economic views of slave-holding Babylonia are evidenced by the code of laws of the Babylonian king *Hammurabi* (XVIII century BC). The Code protects the property and personal rights of the rich and noble, slave owners and landowners. According to the code, anyone who harbours a runaway slave is punished by death. A peasant who fails to pay a debt to a lender or rent to a landlord must enslave his wife, son or daughter. The ancient Indian compendium *The Laws of Manu* set forth the social, religious, and moral precepts that sanctified slavery. According to these laws, a slave has no property. A slave, even when released by his master, is not freed from slave labour, which is supposedly predestined for him by God and nature.

The views of the ruling classes found expression in religion. For example, Buddhism became widespread in India from the 6th century BC. Proclaiming reconciliation with reality, non-resistance to violence, and humility before the ruling classes, *Buddhism* was a religion that benefited the slave-owning nobility and was used by them to strengthen their domination.

Even the great minds of antiquity could not have imagined the existence of a society without slavery. For

example, the outstanding Greek philosopher *Plato* (5th-4th centuries B.C.) wrote the first book in the history of *mankind about the* ideal social order. But even in his ideal state, he kept the slaves. The labour of slaves, farmers, and artisans was supposed to provide the means of subsistence for the upper class of rulers and warriors.

In the eyes of the greatest thinker of antiquity, *Aristotle* (4th century BC), slavery was also an eternal and inevitable necessity for society. Aristotle had a great influence on the development of mental culture in the ancient world and in the Middle Ages. Having risen high above the level of contemporary society in his scientific conjectures and foresights, Aristotle remained captive to the ideas of his age on the question of slavery. His views on slavery were as follows: for the helmsman, the rudder is an inanimate instrument, and the slave is an animate instrument. If the tools worked on their own, if, for example, the shuttles weaved themselves, then there would be no need for slaves. But since there are many occupations in the household that require simple, rough labour, nature wisely disposed of the creation of slaves. According to Aristotle, some people are destined by nature to be slaves and others to rule them. Slave labour provides the free with leisure for improvement. From this he concluded that the whole art of the master consisted in the skill of using his slaves.

Aristotle gave the science of economy the name “*oikonomia*” (from “*oikos*”—house, household and “*nomos*”—law). In the period of his lifetime, exchange, trade and usury were quite widely developed, but the economy mainly retained its natural, consumer character. Aristotle considered it natural to acquire goods only through agriculture and handicrafts, and he was a supporter of *subsistence economy*. But he also understood the nature of exchange. He found it quite natural to exchange for the purpose of consumption, “because people generally have more of some things, and some less than are necessary for

the satisfaction of wants.” He understood the need for money to be exchanged.

At the same time, Aristotle considered trade for profit and usury to be reprehensible. These occupations, he pointed out, unlike agriculture and handicrafts, know no limits to the acquisition of wealth.

The ancient Greeks already had a well-known idea of *the division of labour* and the role it played in the life of society. Thus, Plato envisioned the division of labour as the basic principle of the state system in his ideal republic.

The economic ideas of the *Romans* also reflected the relations of the prevailing slave-holding mode of production.

Roman writers and public figures, expressing the ideology of slaveholders, considered slaves to be mere instruments of production. It was the Roman writer and encyclopaedist *Varro* (1st century B.C.), who, among a number of other books, provided a kind of manual for slave-owners on how to conduct agriculture, who made a certain division of tools into: 2) dumb (carts), 3) emitting inarticulate sounds (cattle), and 4) gifted with voice (slaves). In giving this definition, he expressed the views that were widespread among slaveholders.

The art of slave control occupied the minds of Rome as well as in Greece. The Roman historian *Plutarch* (1st-2nd centuries AD) says of the “exemplary” slave-owner Cato that he bought slaves when they were minors, “that is, at the age when, like puppies and foals, they can easily be brought up and trained.” It goes on to say that “among the slaves he was constantly inventing ways of keeping quarrels and arguments going, for he considered concord among them dangerous and feared it.”

In ancient Rome, especially in the later period, there was no shortage of ominous signs of the collapse and decay of the economy based on the forced labour of slaves. The Roman writer *Columella* (1st century AD) complained: “Slaves do the greatest harm to the fields. They lend to the side of the

oxen. They and the rest of the cattle graze poorly. They plough the land badly.” He was echoed by his contemporary, the writer *Pliny the Elder*, who claimed that “the latifundia ruined Italy and its provinces.”

Like the Greeks, the Romans considered it natural to have a natural way of farming, in which the owner exchanges only his surplus. In the literature of the time, high trade profits and usurious interest rates were sometimes condemned. In reality, merchants and moneylenders amassed vast fortunes.

In the last period of Rome’s life, voices were already heard condemning slavery and proclaiming the *natural equality of men*. Among the ruling class of slaveholders, these views were understandably not sympathetic. As for the slaves, they were so crushed by their servitude, so downtrodden and ignorant, that they could not develop their own, more advanced ideology than the obsolete ideas of the slave-holding class. This is one of the reasons for the spontaneity and disorganisation of slave revolts.

One of the profound contradictions inherent in the slave-holding system was the struggle between large and small landownership. The ruined peasantry came up with a program of restricting large-scale slave-holding landownership and redistributing land. This was the essence of the agrarian reform for which the *Gracchi* brothers (2nd century B.C.) fought.

In the epoch of the disintegration of the Roman Empire, when the absolute majority of the population of cities and villages, both slaves and freemen, saw no way out of the situation, a deep crisis of the ideology of slave-holding Rome began.

On the basis of the class contradictions of the dying empire, a new religious ideology arose - *Christianity*. The *Christianity* of that era expressed the protest of slaves and other lower classes and declassed elements against slavery and oppression. On the other hand, Christianity reflected the



mood of broad strata of the ruling classes, who felt the hopelessness of their situation. That is why in Christianity, in the twilight of the Roman Empire, along with dire warnings against the rich and powerful, there are calls for humility and salvation in the afterlife.

In the centuries that followed, Christianity was finally transformed into the religion of the ruling classes, into a spiritual instrument for defending and justifying the exploitation and oppression of the toiling masses.

## **BRIEF CONCLUSIONS**

*1. The slave-holding mode of production arose due to the growth of the society's productive forces, the emergence of surplus product, the origin of private ownership of the means of production, including land, and the appropriation of the surplus product by the owners of the means of production.*

*Slavery is the first and most brutal form of exploitation of man by man. A slave was the complete and unrestricted property of his master. The slave-owner arbitrarily disposed not only of the slave's labour, but also of his life.*

*2. With the emergence of the slave-holding system, the state was born for the first time. It arose as a result of the division of society into irreconcilably hostile classes as a machine for the suppression of the exploited majority of society by the exploiting minority.*

*3. Slave-holding economy was mainly subsistence in nature. The ancient world was divided into a multitude of separate economic units that satisfied their needs by their own production. They traded mainly in slaves and luxury goods. The development of exchange gave rise to metallic money.*

*4. The essential features of the basic economic law of the slave-holding mode of production are approximately as*

*follows: appropriation by slave-holders of surplus product for their parasitic consumption by means of predatory exploitation of the mass of slaves on the basis of full ownership of the means of production and slaves, by ruining and enslaving peasants and artisans, as well as by conquering and enslaving the peoples of other countries.*

*5. On the basis of slavery arose a comparatively high culture (art, philosophy, sciences), which reached its greatest development in the Greco-Roman world. Its fruits were enjoyed by a small elite of the slave-holding society. The social consciousness of the ancient world corresponded to a mode of production based on slavery. The ruling classes and their ideologists did not regard the slave as a human being. Physical labour, being the lot of slaves, was considered a shameful occupation, unworthy of a free person.*

*6. The slave-holding mode of production caused the growth of the society's productive forces in comparison with the primitive communal system. But later on, the labour of slaves, who were not at all interested in the results of production, became obsolete. The spread of slave labour and the disenfranchised position of slaves resulted in the destruction of the main productive force of society - the labour force - and the ruin of small free producers. peasants and artisans. This predetermined the inevitability of the collapse of the slave-holding system.*

*7. Slave revolts shook the slave-holding system and accelerated its liquidation. The slave-holding mode of production was replaced by the feudal mode of production, the slave-holding form of exploitation was replaced by the feudal form of exploitation, which opened up some space for the further development of the society's productive forces.*

## CHAPTER III: THE FEUDAL MODE OF PRODUCTION

### **The Emergence of Feudalism.**

The feudal system existed, with one or another peculiarity, in almost all countries.

The era of feudalism covers a long period. In China, the feudal system existed for more than two thousand years. In Western Europe, feudalism spans a number of centuries—from the fall of the Roman Empire (V century) to the bourgeois revolutions in England (XVII century) and France (XVIII century), in Russia—from the IX century to the peasant reform of 1861, in Transcaucasia—from the IV century to the 70s of the XIX century, among the peoples of Central Asia—from the VII-VIII centuries up to the victory of the proletarian revolution in Russia.

In *Western Europe*, feudalism arose on the basis of the disintegration of the Roman slave-holding society, on the one hand, and the disintegration of the clan system among the conquering tribes, on the other; It was formed as a result of the interaction of these two processes.

Elements of feudalism, as already mentioned, originated in the depths of slave-holding society in the form of a colony. Colons were obliged to cultivate the land of their lord, a large landowner, to pay him a certain amount of money or to give him a significant share of the harvest, and to perform various kinds of duties. Nevertheless, the colons were more interested in labour than the slaves, since they had their own households.

In this way, new relations of production were born, which were fully developed in the feudal era.

The Roman Empire was defeated by tribes of Germans, Gauls, Slavs, and other peoples living in various parts of

Europe. The power of the slaveholders was overthrown, and slavery fell away. Large latifundia and craft workshops based on slave labour were fragmented into small ones. The population of the collapsed Roman Empire consisted of large landowners (former slave owners who had switched to the colonate system), freed slaves, coloni, small peasants, and artisans.

At the time of the conquest of Rome, the conquering tribes had a communal system that was in a state of decay. An important role in the social life of these tribes was played by *the rural community*, which the Germans called the mark. Land, with the exception of the large landed estates of the nobility, was in communal ownership. Forests, heaths, pastures, ponds were used in common. After a few years, the fields and meadows were divided among the members of the community. But gradually, household land, and then arable land, began to pass into the hereditary use of individual families. The distribution of land, the adjudication of cases concerning the community, and the settlement of disputes between its members were carried out by the community assembly, the elders and judges elected by it. At the head of the conquering tribes were military commanders, who, together with their retainers, owned large lands.

The tribes that conquered the Roman Empire took possession of most of its public lands and some of the lands of large private landowners. Forests, meadows and pastures remained in common use, and arable land was divided among individual farms. The divided lands later became the private property of the peasants. In this way a vast stratum of independent small peasantry was formed.

But the peasants could not maintain their independence for long. On the basis of private ownership of land and other means of production, property inequality between individual members of the rural community inevitably increased. Well-to-do and poor families appeared among the peasants. With

the growth of wealth inequality, the wealthy members of the community began to acquire power over the community. Land was concentrated in the hands of wealthy families and became subject to seizure by the nobility and military leaders. The peasants became personally dependent on the large landowners.

In order to retain and strengthen their power over the dependent peasants, the large landowners had to strengthen the organs of state power. Military leaders, relying on the clan nobility and retainers, began to concentrate power in their hands and turned into kings - monarchs.

On the ruins of the Roman Empire, a number of new states were formed, headed by kings. The kings generously distributed the land they seized for life, and then as a hereditary possession to their retainers, who had to perform military service for this. Many lands were given to the church, which served as an important pillar of royal power. The land was cultivated by peasants, who now had to perform a number of duties in favour of the new masters. Huge landed estates passed into the hands of royal retainers and servants, church authorities and monasteries.

Land distributed under such conditions were called fiefs. Hence the name of the new social order—*feudalism*.

The gradual transformation of peasant land into the property of feudal lords and the enslavement of the peasant masses (the process of feudalisation) took place in Europe over the course of a number of centuries (from the fifth and sixth centuries to the ninth and tenth centuries). The free peasantry was ruined by continuous military service, plunder, and extortion. Turning to the large landowner for help, the peasants turned into people dependent on him. Often the peasants were forced to place themselves under the “protection” of the feudal lord: otherwise, it would be impossible for a defenceless person to exist in the conditions of continuous wars and robber raids. In such cases, the ownership of the land was transferred to the feudal lord, and

the peasant could cultivate this plot only on condition that he fulfilled various duties in favour of the feudal lord. In other cases, royal governors and officials used deception and violence to seize the lands of free peasants and force them to accept their authority.

The process of feudalisation proceeded differently in different countries, but the essence of the matter was the same everywhere: previously free peasants fell into personal dependence on the feudal lords who seized their land. This dependence was sometimes weaker, sometimes harsher. In the course of time, the differences in the status of the former slaves, colons, and free peasants were erased, and they all became a single mass of *serf peasantry*. Gradually, a situation developed that was characterised by the medieval proverb: "There is no land without a seignior" (i.e., without a feudal lord). The kings were the supreme landowners.

Feudalism was a necessary stage in the historical development of society. Slavery has outlived its usefulness. Under these conditions, the further development of the productive forces was possible only on the basis of the labour of the mass of dependent peasants, who owned their own farms, their own instruments of production, and who had a certain interest in the labour necessary to cultivate the land and pay tribute to the feudal lord in kind from their harvest.

In *Russia*, under the conditions of the disintegration of the communal system, patriarchal slavery arose. But the development of society here proceeded mainly not along the path of slavery, but along the path of feudalisation. From the 3rd century A.D., the Slavic tribes attacked the Roman slave-holding empire, fought for the liberation of the cities of the Northern Black Sea region under its rule, and played a major role in the collapse of the slave-holding system. The transition from the primitive-communal system to feudalism in Russia took place at a time when the slave-holding system had long since fallen and feudal relations in European countries had been strengthened.

As the history of mankind shows, it is not necessary for every nation to go through all the stages of social development. For many peoples, conditions arise in which they are able to skip certain stages of development and go directly to a higher stage.

The rural community of the Eastern Slavs was called “verv”, “mir”. The community had meadows, forests, and reservoirs in common use, and arable land began to pass into the possession of individual families. At the head of the community was an elder. The development of private land ownership led to the gradual disintegration of the community. The land was seized by elders and tribal princes. Peasants—smerds—were at first free members of the community, and then became dependent on large landowners—boyars.

The church became the largest feudal owner. Grants from princes, donations and spiritual testaments made her the owner of vast lands and the richest farms at that time.

In the period of the formation of the centralised Russian state (15th-16th centuries), the grand dukes and tsars began, as it was said at the time, to “place” their retainers and servants on the land, that is, to give them land and peasants on the condition of military service. Hence the names - *estate, landlords*.

At that time, the peasants were not yet permanently attached to the landlord and the land: they had the right to pass from one landlord to another. At the end of the 15th century, the landlords, in order to increase the production of grain for sale, intensified the exploitation of the peasants. In this regard, in <> the state deprived the peasants of the right to transfer from one landlord to another. The peasants were completely attached to the land owned by the landlords and thus became serfs.

In the era of feudalism, agriculture played a predominant role, and of its branches, agriculture. Gradually, over the course of a number of centuries, the methods of ploughing

were improved, vegetable gardening, gardening, winemaking, and butter making developed.

In the early period of feudalism, the *shifting* system prevailed, and in the forest areas, the *slash-and-burn* system of agriculture prevailed. A plot of land was sown for several years in a row with a single crop until the soil was exhausted. Then they moved to another site. Subsequently, there was a transition to a *three-field* system, in which the arable land is divided into three fields, and in turn one field is used for winter crops, another for spring crops and the third remains fallow. The three-field system began to spread in Western Europe and Russia from the 11th to the 12th centuries. It remained dominant for many centuries, surviving until the 19th century, and in many countries to the present day.

Agricultural implements in the early period of feudalism were scarce. The tools were a plough with an iron ploughshare, a sickle, a scythe, and a shovel. Later, the iron plough and harrow began to be used. Grain grinding was done by hand for a long time, until windmills and watermills became widespread.

## **Production Relations of Feudal Society. Exploitation of Peasants by Feudal Lords.**

The basis of the production relations of feudal society was the feudal lord's ownership of land and incomplete ownership of the serf peasant. A serf was not a slave. He had his own farm. The feudal lord could no longer kill him, but he could sell him. Along with the property of the feudal lords, there was the sole ownership of the instruments of production and their private economy based on personal labour.

Large-scale feudal landed property was the basis for the exploitation of the peasants by the landlords. The feudal



lord's own farm occupied part of his land. The other part of the land was given by the feudal lord under enslaving conditions for the use of the peasants. The peasant was forced to work for the feudal lord because the most important means of production, the land, was the property of the feudal lord. The feudal lord "allocated" the peasants with land, hence the name "allotment". A peasant allotment of land was a condition for providing the landlord with labour. Using his allotment hereditarily, the peasant was obliged to work for the landlord, to cultivate the landlord's land with his own implements and draught animals, or to give the landlord his surplus product in kind or in money.

Such a system of economy inevitably implied the personal dependence of the peasant on the landlord—non-economic coercion. "If the landlord did not have direct power over the peasant's personality, he would not be able to force the man who is endowed with land and runs his own farm to work for him."<sup>15</sup> The working time of the serf peasant was divided into necessary and surplus time. In the course of the necessary time, the peasant created the product necessary for his own existence and the existence of his family. In the course of surplus time, he created a surplus product, which was appropriated by the feudal lord. The surplus labour of the peasants working in the feudal lord's economy, or the surplus product created by the peasant on his own farm and appropriated by the feudal lord, constitute feudal *ground rent*.

Feudal rent often absorbed not only the surplus labour of the peasant, but also a part of his necessary labour. The basis of this rent was feudal ownership of land, which was associated with the direct domination of the feudal landlord over the peasants dependent on him.

Under feudalism, there were three forms of ground rent: labour rent, *product rent*, and money rent. In all these forms

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<sup>15</sup> V. I. Lenin, *The Development of Capitalism in Russia*, Essays, vol. 3, p. 159.

of rent, the exploitation of the peasants by the landlords was undisguised.

Labour rent prevailed in the early stages of the development of feudalism. It took the form of a *corvée*. Under the *corvée*, the peasant worked for a certain part of the week—three days or more—with the help of his own instruments of production (plough, draught animals, etc.) on the manor's estate, and on the rest of the week he worked on his farm. Thus, under the *corvée*, the necessary labour and the surplus labour of the peasant were clearly demarcated in time and space. The range of *corvée* works was very extensive. The peasant ploughed, sowed and harvested crops, grazed cattle, worked as a carpenter, cut wood for the landlord, transported agricultural products and building materials on his horse.

Under *corvée*, the serf peasant was interested in increasing labour productivity only while working on his farm. While working on the landlord's land, the peasant had no such interest. The feudal lords maintained overseers who forced the peasants to work.

In the course of further development, the labour rent is replaced by the rent of products. Rent in the form of products appeared in the form of *rent in kind*. The peasant was obliged to regularly deliver to the landlord a certain amount of grain, livestock, poultry, and other agricultural products. The rent was most often combined with some remnants of *corvée* duties, that is, with the work of the peasant on the landlord's estate.

Under the rent of products, the peasant spent all his labour, both necessary and surplus, at his own discretion. Necessary labour and surplus-labour were no longer so tangibly separated as in the case of labour rent. The peasant became relatively more independent here. This created some incentives for further increase in labour productivity.

At a later stage of feudalism, when exchange was comparatively widespread, money rent arose. It appeared in

the form of a *monetary tribute*. Money rent is characteristic of the period of the disintegration of feudalism and the emergence of capitalist relations. Different forms of feudal rent often existed simultaneously. "In all these forms of ground rent, labour rent, rent in products, money rent (as a mere form of rent transformed into products), the payer of rent is always assumed to be the real cultivator and owner of the land, whose unpaid surplus-labour goes directly to the owner of the land."<sup>16</sup>

In an effort to increase their incomes, the feudal lords levied all sorts of taxes on the peasants. In many cases, they had a monopoly on mills, forges, and other businesses. The peasant was forced to use them for an exorbitant fee in kind or money. In addition to the rent in kind or money paid to the feudal lord, the peasant had to pay all kinds of taxes to the state, local dues, and, in some countries, tithes, that is, a tenth of the harvest, for the benefit of the church.

Thus, the basis of the existence of feudal society was the labour of serfs. Peasants produced not only agricultural products. They worked on the estates of feudal lords as artisans, erected castles and monasteries, and laid roads. Cities were built by the hands of serfs.

The economy of the feudal lord, especially in the early stages of its development, was essentially a *subsistence economy*. Each feudal possession, consisting of a manor estate and villages belonging to the feudal lord, lived a separate economic life, rarely resorting to exchange with the outside world. The needs of the feudal lord and his family, the needs of the numerous servants, were at first satisfied by the products that were produced in the lord's household and delivered by the peasants. More or less large estates had a sufficient number of artisans, mostly from among the serfs of the household. These artisans were engaged in the manufacture of clothing and footwear, the production and

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<sup>16</sup> K. Marx, *Capital*, vol. III, 1953, p. 815.

repair of weapons, hunting equipment and agricultural implements, and the construction of buildings.

Peasant farming was also subsistence. Peasants were engaged not only in agricultural labour, but also in domestic handicraft labour, mainly in the processing of raw materials produced on their farms: spinning, weaving, making shoes, and household implements.

For a long time, feudalism was characterised by a *combination of agriculture* as the main branch of the economy with *domestic crafts*, which had subsidiary significance. The few imported products that could not be dispensed with, such as salt and iron, were at first brought by itinerant merchants. Subsequently, in connection with the growth of cities and handicraft production, the division of labour and the development of exchange between town and country made a great step forward.

The exploitation of dependent peasants by feudal lords was the main feature of feudalism among all peoples. However, in some countries, the feudal system had its own peculiarities. In the countries of the East, feudal relations were for a long time combined with relations of slavery. This was the case in China, India, Japan and a number of other countries. Feudal state ownership of land was of great importance in the East. For example, during the period of the Baghdad Caliphate under the rule of the Arabs (especially in the 8th-9th centuries AD), most of the peasant community members lived on the caliph's land and paid feudal rent directly to the state. Feudalism in the East is also characterised by the persistence of patriarchal-clan relations, which were used by the feudal lords in order to intensify the exploitation of the peasants.

In the agricultural countries of the East, where irrigated agriculture is crucial, the peasants became indentured to the feudal lords, because not only the land, but also the water resources and irrigation facilities were the property of the feudal state or individual feudal lords. Nomadic peoples used

the land as pasture. The size of feudal landownership was determined by the number of livestock. Large cattle owners—feudal lords were in fact large owners of pastures. They kept the peasantry dependent and exploited it.

Proceeding from the foregoing, it would be possible to formulate the main features of the *basic economic law of feudalism* in the following way: the appropriation by the feudal lords for their parasitic consumption of the surplus product through the exploitation of dependent peasants on the basis of the feudal lord's ownership of land and his partial ownership of the workers of production, the serfs.

### **Medieval City. Artisans' Guilds. Merchant Guilds.**

Cities arose under the slave-holding system. Cities such as Rome, Florence, Venice, Genoa—in Italy; Paris, Lyon, Marseille—in France; London in England; Samarkand in Central Asia, and many others were inherited by the Middle Ages from the era of slavery. The slave-holding system fell, but the cities remained. Large slave-holding workshops disintegrated, and non-crafts continued to exist.

In the early Middle Ages, cities and crafts developed poorly. Urban artisans produced products for sale, but they received most of the consumer goods they needed from their farms. Many of them had small crops, gardens, and productive livestock. Women were engaged in the yarn of flax and wool for the manufacture of clothes. This was indicative of the limitations of markets and exchange.

In the countryside, the processing of agricultural raw materials was at first an auxiliary occupation of farmers. Then, artisans who served their village began to emerge from among the peasants. The productivity of artisans grew. It became possible to produce more products than the feudal

lord or the peasants of one village needed. Artisans began to settle around feudal castles, near the walls of monasteries, in large villages and other trade centres. Thus, gradually, usually on waterways, new cities grew up (in Russia, for example, Kiev, Pskov, Novgorod, Vladimir). The separation of the city from the countryside, which had arisen during slavery, intensified.

With the passage of time, crafts became more and more profitable. The art of artisans was perfected. The feudal landlord switched to buying handicrafts from the townspeople, he was no longer satisfied with the products of his own serfs. The more developed handicraft was finally separated from agriculture.

Cities, having arisen on the lands of secular and ecclesiastical feudal lords, were subject to their authority. The townspeople bore a number of duties in favour of the feudal lord, paid him a rent in kind or in money, and were subordinate to his administration and court. The urban population early began the struggle for liberation from feudal dependence. Partly by force, partly by means of ransom, the cities obtained for themselves the right of self-government, of the courts, of coinage, and of collecting taxes.

The urban population consisted mainly of artisans and merchants. In many cities, serfs who fled from the landlords found refuge. The city was the bearer of commodity production, in contrast to the countryside, where natural economy prevailed. The growth of competition on the part of runaway serfs who flocked to the cities, the struggle against exploitation and oppression on the part of feudal lords forced artisans to unite in *guilds*. The *guild* system existed in the epoch of feudalism in almost all countries.

Guilds arose in Byzantium in the 9th century, in Italy in the 10th century, and later throughout Western Europe and Russia. In the countries of the East (Egypt, China), in the cities of the Arab caliphate, guilds appeared even earlier than in European countries. Guilds united urban artisans of

one particular trade or several close ones. Only artisans-masters were full members of the guilds. The master craftsman had a small number of apprentices and apprentices. The guilds carefully guarded the exclusive right of their members to engage in this craft and regulated the production process: they established the length of the working day, the number of apprentices and apprentices of each master, determined the quality of raw materials and finished products, as well as its prices, and often they jointly purchased raw materials. Methods of work, enshrined in a long-standing tradition, were obligatory for everyone. Strict regulation was intended to ensure that no master was superior to the rest. In addition, the workshops served as mutual aid organisations.

Guilds were a feudal form of craft organisation. In the early days of their existence, they played a certain positive role, contributing to the strengthening and development of urban crafts. However, with the growth of commodity production and the expansion of the market, the guilds became more and more a brake on the development of productive forces.

Excessive regulation of handicraft production on the part of the guilds fettered the initiative of artisans and hindered the development of technology. In order to limit competition, the workshops began to put all sorts of obstacles in the way of those who wanted to obtain the rights of a foreman. Apprentices and apprentices, whose number had grown greatly, had almost no opportunity to become independent masters. They were forced to remain in the position of wage earners for the rest of their lives. Under these conditions, the relationship between the master and his subordinates lost its former, more or less patriarchal, character. The foremen intensified the exploitation of their subordinates, forcing them to work 14 to 16 hours a day for paltry pay. Apprentices began to unite in secret alliances - brotherhoods - to protect their interests. The guilds and the

city authorities persecuted the apprentice brotherhoods in every possible way.

The richest part of the urban population were *merchants*. Trade activity took place both in the cities inherited from the era of slavery and in the cities that arose under feudalism. The guild organisation in crafts corresponded to the organisation of guilds in trade. *Merchant guilds* existed almost everywhere in the era of feudalism. In the East, they have been known since the 9th century, in Western Europe—from the 9th-10th centuries, in Russia—since the 12th century. The main task of the guilds was to combat the competition of foreign merchants, to regulate weights and measures, and to protect merchants' rights from the encroachment of feudal lords.

In the 9th and 10th centuries there was already considerable trade between the countries of the East and Western Europe. Kievan Rus took an active part in this trade. The Crusades (11th-13th centuries), which opened the Middle Eastern markets to Western European merchants, played an important role in the expansion of trade. Europe was flooded with gold and silver from the East. Money began to appear in places where it had not been used before. The Italian cities, especially Genoa and Venice, took a direct part in the conquest of the eastern markets, transporting crusaders to the East on their merchant ships and supplying them with provisions.

For a long time, Mediterranean ports were the main centres of trade linking Western Europe with the East. At the same time, trade developed widely in the North German and Dutch cities located near the trade routes of the North and Baltic Seas. In the 13th century, a trade union of cities arose here - the German Hanseatic League, which united about 100 cities of various European countries in the next two centuries. The Hanseatic League traded with England, Scandinavia, Poland, and Russia. In exchange for Western European handicrafts—Flanders and English cloth, linen,



German metalwork, French wines—furs, leathers, lard, honey, bread, timber, resin, linen fabrics and some handicrafts were exported from the northeastern regions of Europe. Merchants brought spices from the countries of the East—pepper, cloves, nutmeg, incense, dyestuffs, paper and silk fabrics, carpets and other goods.

In the 13th and 14th centuries, the Russian cities of Novgorod, Pskov, and Moscow conducted extensive trade with Asia and Western Europe. Novgorod merchants traded, on the one hand, with the peoples of the North (the coast of the Arctic Ocean and the Trans-Urals), and on the other hand, conducted regular trade with Scandinavia and Germany.

The growth of cities and the development of trade had a strong influence on the feudal countryside. The economy of the feudal lords was drawn into the market turnover. To buy luxury goods and urban handicrafts, the feudal lords needed money. In this regard, it was profitable for the feudal lords to transfer the peasants from corvée and natural rent to money rent. With the transition to monetary servitude, feudal exploitation intensified even more.

## **Classes and Estates of Feudal Society. Feudal Hierarchy.**

Feudal society was divided into two main classes - feudal lords and peasants. "The feudal society represented a division of classes in which the overwhelming majority, the serf peasantry, was completely dependent on an insignificant minority, the landlords who owned the land."<sup>17</sup>

The feudal class was not a homogeneous whole. Small feudal lords paid tribute to large feudal lords, helped them

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<sup>17</sup> V. I. Lenin, *On the State, Essays*, vol. 29, p. 445.

in war, but at the same time enjoyed their patronage. The patron was called a seignior, and the patronised was called a vassal. The *seigniors*, in turn, were *vassals* of other, more powerful feudal lords.

As the ruling class, the feudal landlords stood at the head of the state. They constituted one estate, *the nobility*. The nobles held the honourable position of the First Estate, enjoying broad political and economic privileges.

*The clergy* (ecclesiastical and monastic) were also the largest landowners. It owned vast lands with a large dependent and serf population and, along with the nobility, was the ruling class.

The broad base of the “feudal ladder” was the *peasantry*. The peasants were subordinate to the landlord and were under the supreme authority of the largest feudal lord, the king. The peasantry was a politically disenfranchised class. Landlords could sell their serfs and made extensive use of this right. The serfs subjected the peasants to corporal punishment. Lenin called serfdom “serf slavery.” The exploitation of serfs was almost as brutal as the exploitation of slaves in the ancient world. Nevertheless, the serf could work part of the time on his own land, he could to a certain extent belong to himself.

The main class contradiction of feudal society was the contradiction between feudal lords and serfs. The struggle of the exploited peasantry against the feudal landlords was waged throughout the entire epoch of feudalism and became particularly acute at the last stage of its development, when feudal exploitation intensified to the extreme.

In the cities that had freed themselves from feudal dependence, power was in the hands of wealthy townspeople—merchants, usurers, owners of urban land and large landowners. Guild artisans, who made up the bulk of the urban population, often opposed the urban aristocracy, seeking their share in the administration of the cities along with the urban aristocracy. Small artisans and apprentices

fought against the guild masters and merchants who exploited them.

By the end of the feudal era, the urban population was already highly stratified. On one side are rich merchants and guild masters, on the other are vast strata of apprentices and apprentices, the urban poor. The lower classes of the city entered into a struggle against the combined forces of the urban nobility and feudal lords. This struggle was combined with the struggle of the serfs against feudal exploitation.

Kings were considered to be the bearers of supreme power (in Russia—grand dukes, and then tsars). But outside of the kings' own domains, the importance of royalty in the early feudal period was negligible. Often this power remained nominal. The whole of Europe was divided into many large and small states. The great feudal lords were full masters of their domains. They made laws, enforced them, carried out justice and reprisals, maintained their own army, raided their neighbours, and did not hesitate to plunder on the high roads. Many of them minted coins on their own. The lesser feudal lords also enjoyed very broad rights in relation to the people under their rule; They tried to emulate the big seigniors.

In the course of time, feudal relations have formed an extremely intricate tangle of rights and duties. Endless disputes and strife arose between the feudal lords. They were usually resolved by force of arms, by means of internecine wars.

## **Development of Productive Forces of Feudal Society.**

In the era of feudalism, a higher level of productive forces was achieved compared to the era of slavery.

In the field of agriculture, the technique of production increased, and the iron plough and other iron tools appeared and became widespread. New branches of field cultivation appeared, viticulture, winemaking, and vegetable gardening were significantly developed. Cattle breeding, especially horse breeding, which was associated with the military service of feudal lords, grew, and butter making developed. In a number of areas, sheep breeding has become widespread. Meadows and pastures were expanded and improved.

Artisan tools and methods of processing raw materials were gradually improved. The former repair shops have become specialised. So, for example, earlier the blacksmith made all products from metal. Over time, weapons, nails, knives, locksmiths were separated from the blacksmith trade, and shoemaking and saddlery were separated from the leather trade. In the XVI-XVII centuries, self-spinning became widespread in Europe. In 1600 the belt loom was invented.

For the improvement of tools, the improvement of smelting and processing of iron was crucial. In the beginning, iron was produced in a very primitive way. In the 14th century, the waterwheel began to be used to drive bellows for blowing and heavy hammers for crushing ore. With the increase in draught in the furnaces, instead of forging mass, a fusible mass began to be obtained - cast iron. With the use of gunpowder in warfare and the advent of firearms (in the 14th century), a lot of metal was needed for cannonballs; From the beginning of the XV century, they began to be cast from cast iron. More and more metal was needed for the manufacture of agricultural and other implements. In the first half of the 15th century, the first blast furnaces appeared. The invention of the compass contributed to the further development of navigation and navigation. The invention and spread of printing was of great importance.

In China, the productive forces and culture already reached a significant development in the sixth and eleventh

centuries, surpassing in many respects the Europe of that time. The Chinese were the first to invent the compass, gunpowder, writing paper and, in its simplest form, printing.

The development of the productive forces of feudal society increasingly came up against the narrow framework of feudal relations of production. The peasantry, being under the yoke of feudal exploitation, was not in a position to further increase the production of agricultural products. The productivity of forced peasant labour was extremely low. In the city, the growth of the productivity of the artisan ran into obstacles created by guild statutes and rules. The feudal system was characterised by a slow rate of development of production, routine, and the power of traditions.

The productive forces that grew up within the framework of feudal society demanded new relations of production.

## **The Origin of Capitalist Production in the Depths of the Feudal System. The Role of Merchant Capital.**

In the epoch of feudalism, there was a gradual development of commodity production, urban handicrafts expanded, and peasant farming became more and more involved in exchange.

The production of small artisans and peasants, based on private property and personal labour, creating products for exchange, is called *simple commodity production*.

As already stated, the product produced for exchange is a commodity. Individual commodity producers spend unequal amounts of labour on the production of the same commodities. This depends on the different conditions in which they have to work: commodity producers, who have better tools, spend less labour on the production of the same

commodity than other commodity producers. Along with differences in the instruments of labour, there are also differences in the strength, dexterity, skill of the labourer, etc. But the market does not care under what conditions and with what instruments this or that commodity is produced. The same sum of money is paid for the same commodities on the market, regardless of the individual conditions of labour in which they are produced.

That is why commodity producers, whose individual labour inputs are higher than average as a result of the worst conditions of production, cover only a part of these costs when selling their commodities and go bankrupt. On the contrary, commodity producers, whose individual labour inputs are below the average due to better conditions of production, find themselves in an advantageous position and become richer in the sale of their commodities. This increases competition. There is a stratification of small commodity producers: most of them are getting poorer, and an insignificant part is getting richer.

A major obstacle to the development of commodity production was the fragmentation of the state under feudalism. The feudal lords arbitrarily imposed duties on imported goods, levied tribute for passing through their possessions, and thus created serious obstacles to the development of trade. The needs of trade and the economic development of society in general necessitated the abolition of feudal fragmentation. The growth of handicraft and agricultural production and the development of the social division of labour between town and country led to the strengthening of economic ties between different regions within the country and to the formation of a national market. The formation of a *national market* created economic prerequisites for the centralisation of state power. The nascent urban bourgeoisie was interested in the elimination of feudal barriers and advocated the creation of a centralised state.

Relying on a wider stratum of non-noble landlords, on the “vassals of their vassals,” as well as on the rising cities, the kings dealt decisive blows to the feudal nobility and strengthened their position. They became not only nominal, but also de facto rulers in the state. Large nation-states were formed in the form of absolutist monarchies. The overcoming of feudal fragmentation and the creation of centralised state power contributed to the emergence and development of capitalist relations.

The formation of the world market was also of great importance for the emergence of the capitalist *system*.

In the second half of the XV century, the Turks captured Constantinople and the entire eastern part of the Mediterranean Sea. The most important artery that carried trade routes between Western Europe and the East was cut. In search of a sea route to India, Columbus discovered America in 1492, and in 1498 Vasco da Gama, having travelled around Africa, discovered a sea route to India.

As a result of these discoveries, the centre of gravity of European trade shifted from the Mediterranean Sea to the Atlantic Ocean, and the main role in trade passed to the Netherlands, England, and France. Russia played a prominent role in European trade.

With the advent of world trade and the world market, handicrafts were unable to meet the increased demand for goods. This accelerated the transition from small-scale handicraft production to large-scale *capitalist production* based on the exploitation of wage workers.

The transition from the feudal mode of production to the capitalist mode of production took place in two ways: on the one hand, the stratification of small commodity producers gave rise to capitalist entrepreneurs, and on the other hand, merchant capital, in the person of merchants, directly subordinated production to itself.

Guilds could limit competition and stratification of artisans while commodity production was poorly developed.

With the development of exchange, the competition became more and more intense. Craftsmen working for a wider market partly sought the abolition of guild restrictions, and partly simply circumvented them. They lengthened the working day of apprentices and apprentices, increased their number, and applied more productive methods of labour. The richest craftsmen were gradually transformed into capitalists, and the poorer masters, apprentices, and apprentices into wage labourers.

Merchant capital, by disintegrating natural economy, contributed to the emergence of capitalist production. Merchant capital initially acted as an intermediary in the exchange of goods of small producers—artisans and peasants—and in the realisation by feudal lords of a part of the surplus product appropriated by them. Subsequently, the merchant began to regularly buy goods from small producers and then resell them on a wider market. The merchant thereby became a buyer. With the growth of competition and the appearance of the buyer, the position of the mass of artisans changed significantly. Impoverished craftsmen were forced to turn for help to a merchant-buyer, who lent them money, raw materials and materials on the condition that the finished products were sold to them at a predetermined, low price. In this way, small producers became economically dependent on merchant capital.

Gradually, many impoverished craftsmen became so dependent on the rich buyer. The buyer would give them raw materials, such as yarn, to be processed into cloth for a fee, and thus become a *distributor*.

The ruin of the artisan led to the fact that the buyer supplied him not only with raw materials, but also with tools of labour. Thus the artisan was deprived of the last semblance of independent existence and was finally transformed into a wage-worker, and the buyer became an industrial capitalist.



Yesterday's artisans, gathered in the capitalist's workshop, did the same work. Soon, however, it was discovered that some of them were better at some operations, others at other operations. For this reason it was more advantageous to entrust to each one that part of the work in which he was most skilful. Thus, in workshops with a more or less significant number of workers, *the division of labour* was gradually introduced.

Capitalist enterprises employing hired workers who work by hand on the basis of the division of labour are called *manufactories*.<sup>18</sup>

The first manufactories appeared in the XIV-XV centuries in Florence and some medieval cities-republics of Italy. Then, in the XVI-XVIII centuries, manufactories of various branches of production—cloth, linen, silk, watchmaking, weapons, glass—spread to all European countries.

In Russia, manufactories began to appear in the XVII century. At the beginning of the XVIII century, under Peter I, they began to develop more rapidly. Among them were manufactories of weapons, cloth, silk and others. Ironworks, mines, and salt-works were established in the Urals.

Unlike Western European manufactories, which were based on hired labour, Russian enterprises in the XVII-XVIII centuries, although they used freelance labour, but the labour of serfs and attached workers prevailed. Since the end of the XVIII century, manufactories based on free labour began to spread widely. This process was especially intensified in the last decades before the abolition of serfdom.

In contrast to Western European manufactories, which were based on hired labour, Russian enterprises in the 17th and 18th centuries, although free hired labour was used, but the labour of serfs and attached workers prevailed. From the end of the 18th century, manufactories based on hired labour

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<sup>18</sup> The word 'manufactory' literally means manual labour.

began to spread widely. This process intensified especially in the last decades before the abolition of serfdom.

The process of disintegration of feudal relations also took place in the countryside. With the development of commodity production, the power of money increased. Feudal lords and serfs transferred the rent and other duties from the form in kind to the monetary one. Peasants had to sell the products of their labour and pay the proceeds to the feudal lords. The peasants were in constant need of money. This was used by hoarders and usurers to enslave the peasants. Feudal oppression intensified, and the situation of the serfs deteriorated.

The development of monetary relations gave a strong impetus to the *differentiation of the peasantry*, that is, to its stratification into various social groups. The overwhelming majority of the peasantry was impoverished, suffocated by overwork, and ruined. At the same time, kulaks-peace-eaters began to appear in the village, exploiting their fellow villagers by means of enslaving loans, buying agricultural products, livestock, and implements from them for a pittance.

Thus, in the depths of the feudal system, capitalist production was born.

### **Initial Accumulation of Capital. Forcible Dispossession of Peasants. Accumulation of Wealth.**

Capitalist production presupposes two basic conditions: (1) the existence of a mass of propertyless people, who are personally free and at the same time deprived of the means of production and the means of subsistence, and are therefore compelled to work for the capitalists, and (2) the

accumulation of the monetary wealth necessary for the creation of large capitalist enterprises.

We have seen that capitalism was nourished by small-scale commodity production based on private property, with its competition, which enriched the few and ruined the majority of the small producers. But the slowness of this process did not correspond to the needs of the new world market created by the great discoveries of the late XV century. The emergence of the capitalist mode of production was hastened by the use of the crudest methods of violence on the part of the big landowners, the bourgeoisie, and the state power in the hands of the exploiting classes. Violence, as Marx put it, played the role of midwife, hastening the birth of a new, capitalist mode of production.

Bourgeois scholars idyllically depict the history of the emergence of the capitalist class and the working class. In ancient times, they argue, there was a handful of diligent and thrifty people who amassed wealth through their labour. On the other hand, there was a mass of idlers, idlers, who squandered all their wealth and turned into propertyless proletarians.

These fables of the defenders of capitalism have nothing to do with reality. As a matter of fact, the formation of a mass of propertyless people - the proletarians - and the accumulation of wealth in the hands of a few took place through the forcible deprivation of the means of production of the small producers. The process of separating the producers from the means of production (from the land, from the instruments of production, etc.) was accompanied by an endless series of robberies and cruelties. This process is called the *initial accumulation of capital*, because it preceded the creation of large-scale capitalist production.

Capitalist production reached a considerable development first of all in Britain. In this country, since the end of the 15th century, there has been a painful process of forced dispossession of the peasants. The immediate impetus

for this was the increased demand for wool from the large cloth manufactories that sprang up first in Flanders and then in England itself. Landlords began to breed large flocks of sheep. Pastures were needed for sheep breeding. The feudal lords drove the peasants out of their homes en masse, seized the lands that were in their permanent use, and turned arable land into pastures.

The expulsion of peasants from the land was carried out in various ways, primarily through the open seizure of communal land. Landlords fenced off these lands, destroyed peasant houses, and forcibly evicted peasants. If the peasants tried to reclaim the land illegally seized from them, the armed forces of the state came to the aid of the feudal lord. The state authorities began to issue laws in the XVIII century on the 'enclosure of land', sanctifying the robbery of peasants.

The ruined and robbed peasants made up the innumerable crowds of destitute poor who filled the towns, villages and roads of England. Having no means of subsistence, they were beggars. The state authorities issued bloody laws against the expropriated. These laws were extremely cruel. So, in the reign of the English King Henry VIII (XVI century), 72 thousand people were executed for 'vagrancy'. In the XVIII century, 'vagabonds' and homeless people were imprisoned in workhouses 'instead of the death penalty, which earned the fame of 'houses of horror'. Thus the bourgeoisie tried to accustom the rural population, deprived of land and turned into vagabonds, to the discipline of hired labour.

In tsarist Russia, which embarked on the path of capitalist development later than other European countries, the separation of the producer from the means of production was carried out in the same way as in other countries. In 1861, the tsarist government, under the influence of peasant uprisings, was forced to abolish serfdom.

This reform was a grandiose robbery of the peasants. The landlords seized two-thirds of the land, leaving only one-third for the use of the peasants. The most convenient lands, as well as, in some cases, pastures, watering holes, roads to the fields, etc., which were in the use of the peasants, were cut off by the landlords. In the hands of the landlords, the “cut-offs” became a means of enslaving the peasants, who were forced to rent these lands from the landlords on the most onerous terms. The law, declaring the personal freedom of the peasants, temporarily preserved *corvée* and rent. For the reduced allotment of land received, the peasant was obliged to bear these duties in favour of the landlord until the land was redeemed. The amount of redemption payments was calculated at inflated land prices and amounted to about two billion rubles.

Describing the peasant reform of 1861, Lenin wrote: “This is the first mass violence against the peasantry in the interests of the emerging capitalism in agriculture. This is the landlords’ “cleansing of the land” for capitalism.”<sup>19</sup>

By dispossessing the peasants of their land, a double result was achieved. On the one hand, the land fell into the private ownership of a relatively small handful of landowners. Estate feudal ownership of land was transformed into bourgeois property. On the other hand, there was an abundant influx of free workers into industry who were ready to work for the capitalists.

For the emergence of capitalist production, it was necessary, in addition to the availability of cheap labour power, to accumulate in a few hands large amounts of wealth in the form of sums of money, which could be converted into any means of production and used to hire workers.

In the Middle Ages, great monetary wealth was accumulated by merchants and moneylenders. These riches

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<sup>19</sup> V. I. Lenin, Agrarian program of social democracy in the first Russian resolution of 1905 - 1907, Works, vol. 13, p. 250.

later served as the basis for the organisation of many capitalist enterprises.

The conquest of America, accompanied by the mass plunder and extermination of the native population, brought the conquerors untold riches, which began to grow even faster as a result of the exploitation of the richest mines of precious metals. The mines needed workers. The native population, the Indians, perished en masse, unable to endure the hard labour conditions. European merchants organised a hunt for Negroes in Africa, which was conducted according to all the rules of hunting for wild animals. The trade in Negroes taken from Africa and turned into slaves was extremely profitable. The profits of slave traders reached fabulous proportions. On the cotton plantations of America, the slave labour of Negroes began to be widely used.

Colonial trade was also one of the most important sources of the formation of large fortunes. For trade with India, Dutch, English, and French merchants organised the East India Companies. These companies had the support of their governments. They were granted a monopoly on the trade in colonial goods and the right to exploit the colonies without restraint by any means of violence. The profits of the East India Companies amounted to hundreds of per cent per annum. In Russia, large profits were brought to merchants by predatory trade with the population of Siberia and by the predatory system of wine purchases, which consisted in the fact that the state granted private entrepreneurs the right to produce and sell alcoholic beverages for a certain fee.

As a result, huge monetary wealth was concentrated in the hands of merchant and usurious capital.

Thus, at the cost of plunder and ruin of the mass of small producers, the monetary wealth necessary for the creation of large-scale capitalist enterprises was accumulated.

Describing this process, Marx wrote: “Newborn capital exudes blood and dirt from all its pores, from head to toe”.<sup>20</sup>

## **Uprisings of Serfs. Bourgeois Revolutions. The Death of the Feudal System.**

The struggle of the peasantry against the feudal landlords took place throughout the entire era of feudalism, but it became particularly acute by the end of this era.

France in the XIV century was gripped by a peasant war, which went down in history under the name ‘Jacquerie’. The nascent urban bourgeoisie supported this movement at first, but at the decisive moment withdrew from it.

In England, at the end of the XIV century, a peasant uprising broke out, covering most of the country. Armed peasants led by Watt Tyler marched across the country, smashing down estates and monasteries, and captured London. The feudal lords resorted to violence and deception to put down the rebellion. Tyler was treacherously murdered. Believing the promises of the king and the feudal lords, the rebels went home. After that, punitive expeditions passed through the villages, which committed cruel reprisals against the peasants.

Germany at the beginning of the XVI century was engulfed in a peasant war, supported by the urban lower classes. At the head of the rebels was Thomas Munzer. The peasants demanded the abolition of noble arbitrariness and violence.

In Russia, the peasant wars led by Stepan Razin in the XVII century and Yemelyan Pugachev in the XVIII century were particularly large. The rebellious peasants sought the abolition of serfdom, the transfer of landlords’ and state-owned lands to them, and the elimination of the rule of landlords. The aggravation of the crisis of the feudal-serf system of economy

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<sup>20</sup> K. Marx, Capital, vol. I, 1953, p. 764.

in the 1950s was reflected in a broad wave of peasant uprisings on the eve of the reform of 1861.

Large-scale peasant wars and uprisings have been taking place in China for hundreds of years. The Taiping rebellion during the Qing Dynasty (mid-XIX century) involved millions of peasants. The rebels occupied the ancient capital of China—Nanjing. The Taiping Agrarian Law proclaimed equality in the use of land and other property. The Taiping state organisation combined monarchy with peasant democracy in a peculiar way, which is typical of peasant movements in other countries.

The revolutionary significance of the peasant uprisings lay in the fact that they shook the foundations of feudalism and eventually led to the abolition of serfdom.

The transition from feudalism to capitalism in the countries of Western Europe took place through *bourgeois revolutions*. The struggle of the peasants against the landlords was used by the rising bourgeoisie to hasten the demise of the feudal system, to replace feudal exploitation by capitalist exploitation, and to seize power in its own hands. In bourgeois revolutions, the peasants formed the bulk of the fighters against feudalism. This was the case in the first bourgeois revolution in the Netherlands (Holland and Belgium) in the XVI century. Such was the case in the English Revolution of the XVII century. This was the case in the bourgeois revolution in France at the end of the XVIII century.

The bourgeoisie took advantage of the fruits of the peasantry's revolutionary struggle, making its way to power on its shoulders. The peasants were strong in their hatred of their oppressors. But the peasant uprisings were spontaneous. The peasantry, as a class of small private proprietors, was fragmented and unable to create a clear programme and a strong, cohesive organisation for the struggle. Peasant uprisings can succeed only if they are combined with the working-class movement and if the workers lead the peasant uprisings. But in the period of the



bourgeois revolutions of the seventeenth and eighteenth centuries, the working class was still weak, small and unorganised.

In the depths of feudal society, more or less ready-made forms of the capitalist order matured, a new exploiting class, the capitalist class, and at the same time there appeared masses of people deprived of the means of production, the proletarians.

In the epoch of bourgeois revolutions, the bourgeoisie used against feudalism the economic law of the obligatory correspondence of the relations of production to the character of the productive forces, overthrew the feudal relations of production, created new, bourgeois relations of production, and brought the relations of production into conformity with the character of the productive forces that had matured in the bosom of feudalism.

Bourgeois revolutions put an end to the feudal system and established the rule of capitalism.

## **Economic Views of the Feudalistic Era**

The economic views of the feudal epoch reflected the prevailing system of social relations at that time. In feudal society, all intellectual life was under the control of the clergy and proceeded in a *religious-scholastic* form. For this reason, discussions of the economic life of that time formed special sections in theological treatises.

The economic and other views of the feudal era in China were influenced by the teachings of Confucius for many centuries. *Confucianism* as a religious ideology arose as early as the V century BC. The socioeconomic views of Confucianism boil down to the consecration of a single feudal state under the rule of a monarch and demand the strict preservation of the feudal hierarchy of estates both in the state structure and in family life. In the words of Confucius,

“Dark people must obey aristocrats and sages. The disobedience of the commoner to the higher is the beginning of disorder.” Confucius and his followers, defending the interests of the feudal exploiters, idealised the most backward, conservative forms of economy. They praised the “golden age” of patriarchal antiquity. In its development, Confucianism became the official ideology of the feudal nobility.

One of the ideologists of feudalism in medieval Europe, *Thomas Aquinas* (13th century), tried to justify the necessity of feudal society by divine law. By declaring feudal property necessary and reasonable and declaring serfs to be slaves, Thomas Aquinas, in contrast to the ancient slaveholders, asserted that “in his spirit the slave is free” and therefore the master has no right to kill the slave. Work was no longer considered unworthy of a free man. Thomas Aquinas viewed physical labour as menial labour and mental labour as noble labour. In this division he saw the basis for the class division of society. In his views on wealth, the same feudal-class approach was manifested. Each person should have wealth in accordance with the position he occupies on the feudal hierarchical ladder. From this point of view, the teaching of medieval theologians about the so-called “just” price is characteristic. A “fair” price should reflect the amount of labour expended in the production of the commodity and the class position of the producer.

The medieval advocates of a “just” price had no objection to merchants’ profits. They only sought to bring profit within such limits that it would not threaten the economic existence of other estates. They condemned usury as a base and immoral occupation. However, with the development of commodity production and exchange, the clergy themselves began to take part in usurious operations; At the same time, the attitude of the Church to usury became more and more tolerant.

The class struggle of the oppressed and exploited masses against the ruling classes of feudal society developed in a religious form for a number of centuries. The demands of exploited peasants and apprentices were often justified by quotations from the Bible. All sorts of sects were very widespread. The Catholic Church and the Inquisition brutally persecuted “heretics” and burned them at the stake.

With the development of the class struggle, the religious form of the movement of the oppressed masses receded into the background, and the revolutionary character of this movement became more and more evident. The peasants demanded the abolition of serf slavery, the abolition of feudal privileges, the establishment of equal rights, the abolition of estates, and so on.

In the course of the peasant wars in Britain, the Czech Republic, and Germany, the slogans of the insurgents assumed an increasingly radical character. The striving of the exploited masses of the countryside and the city for equality was expressed in the demand for *community of property*. It was the desire for equality in consumption. Although the demand for community of property was impracticable, it had a revolutionary significance in that historical epoch, since it roused the masses to struggle against feudal oppression.

At the end of the feudal era, two outstanding early utopian socialists emerged: the Englishman *Thomas More*, who wrote *Utopia* (XVI century), and the Italian *Tommaso Campanella*, whose book is called *The City of the Sun* (XVII century). Seeing the growing inequality and contradictions of contemporary society, these thinkers expounded their views on the causes of social disasters in a peculiar form: they gave a description of the ideal, in their opinion, social order under which these disasters would be eliminated.

The books of these utopians describe a social order free from private property and all its attendant vices. Everyone in this society is engaged in both handicraft and agricultural work. All the inhabitants work six or even four hours a day,

and the fruits of their labour are quite sufficient to satisfy all wants. Products are distributed according to need. The upbringing of children is a public affair.

The works of More and Campanella played a progressive role in the development of social thought. They contained ideas that were far ahead of the development of society at that time. But More and Campanella did not know the laws of social development, their ideas were unrealizable, utopian. At that time, social inequality could not be abolished: the level of productive forces required a transition from feudal to capitalist exploitation.

The emergence of capitalism dates back to the XVI century. The first attempts to comprehend and explain a number of phenomena of capitalism belong to the same century. This is how the trend of economic thought and politics known as *mercantilism* was born and developed in the sixteenth and eighteenth centuries.

Mercantilism originated in England, then it appeared in France, Italy, and other countries. The mercantilists raised the question of the wealth of the country, of the forms of wealth, and of the ways in which it grows.

It was a time when capital—in the form of trade and usurious capital—dominated the sphere of trade and credit. In the field of production, however, he took only the first steps, founding manufactories. After the discovery and conquest of America, a flood of precious metals poured into Europe. Gold and silver were then continuously redistributed among the individual European states, both through war and through foreign trade.

In their understanding of the nature of wealth, the mercantilists proceeded from the superficial phenomena of circulation. They did not concentrate on production, but on trade and the circulation of money, especially on the movement of gold and silver.

In the eyes of the mercantilists, the only true wealth was not social production and its products, but money, gold and

silver. The mercantilists demanded that the state actively intervene in economic life so that as much money as possible would flow into the country and as little as possible would go out of it. The early mercantilists sought to achieve this by purely administrative measures prohibiting the export of money from the country. Later mercantilists considered it necessary to expand foreign trade for this purpose. For example, the English representative of mercantilism, *Thomas Maine* (1571-1641), a major merchant and director of the East India Company, wrote: "The common means of increasing our wealth and our treasures is foreign trade, in which we must always adhere to the rule that we annually sell to foreigners more of our goods than we consume their goods."

The mercantilists expressed the interests of the bourgeoisie, which was emerging in the bosom of feudalism, and sought to accumulate wealth in the form of gold and silver through the development of foreign trade, colonial plunder and trade wars, and the enslavement of backward peoples. In connection with the development of capitalism, they began to demand that the state power should patronize the development of industrial enterprises, i.e. manufactures. *Export premiums* were established, which were paid to merchants selling goods on the foreign market. Import duties soon became even more important. With the development of manufactories and then factories, the imposition of duties on imported goods became the most common measure of protection of domestic industry from foreign competition.

Such a protective policy is called *protectionism*. In many countries, it persisted long after the notions of mercantilism had been overcome.

In *England*, protective duties were of great importance in the sixteenth and seventeenth centuries, when she was threatened by competition from the more advanced manufactures of the Netherlands. Since the 18th century,

England has been firmly conquering industrial primacy. Other, less developed countries could not compete with it. In this regard, the ideas of free trade began to make their way in England.

A different situation arose in the countries which embarked on the capitalist path later than Britain. For example, in *France* in the XVII century, Louis XIV's minister Colbert, who actually ruled the country, created an extensive system of state patronage of manufactures. His system included high import duties, a ban on the export of raw materials, the introduction of a number of new industries, the creation of companies for foreign trade, and so on.

Mercantilism played a progressive role for its time. Protectionist policies, inspired by the ideas of mercantilism, contributed greatly to the spread of manufactures. But the mercantilists' views on wealth reflected the underdevelopment of capitalist production at that time. The further development of capitalism more and more clearly revealed the inconsistency of the ideas of the mercantile system.

*In Russia* in the XVII and XVIII centuries the feudal-serf system of economy prevailed. The economy was basically subsistence. At the same time, trade and handicrafts were significantly developed, a national market was formed, and manufactories began to appear. These economic changes in the country contributed to the strengthening of absolutism in Russia.

Reflecting the historical and economic features of the country, representatives of Russian economic thought developed some ideas of mercantilism. However, unlike many Western European mercantilists, they attached great importance not only to trade, but also to the development of industry and agriculture.

The economic views of that time found their expression in the works and activities of the Russian statesman of the

17th century A. L. Ordyn-Nashchokin, in the economic policy of Peter the Great, in the works of the greatest Russian economist of the early 18th century I. T. Pososhkov.

In his work “The Book of Poverty and Riches” (1724) *I. T. Pososhkov* outlined an extensive program of Russia’s economic development and gave a detailed justification for this program. Pososhkov argued for the need to carry out a number of economic measures in Russia aimed at protecting the development of domestic industry, trade, agriculture, and improving the country’s financial system.

In the last third of the 18th century, there was a tendency towards the disintegration of feudal-serf relations in Russia, which sharply intensified in the first quarter of the 19th century, and later grew into a direct crisis of serfdom.

The initiator of the revolutionary-democratic trend in Russian social thought, A. N. *Radishchev* (1749-1802), was an outstanding economist of his time. Resolutely opposing serfdom and defending the oppressed peasantry, Radishchev gave a devastating critique of the feudal system, exposed the exploitative character of the wealth of the feudal landlords, owners of manufactures, and merchants, and substantiated the ownership of land by those who cultivated it by their own labour. Radishchev was firmly convinced that autocracy and serfdom could be abolished only by revolutionary means. He developed a progressive system of economic measures for his time, the implementation of which would ensure Russia’s transition to a bourgeois-democratic system.

*The Decembrists*, who came out in the first half of the nineteenth century, were revolutionary figures of that historical period in Russia when the need to replace feudalism with capitalism was imminent. They directed the spearhead of their criticism against serfdom. Being ardent advocates of the development of Russia’s productive forces, they considered the abolition of serfdom and the emancipation of the peasants to be the most important condition for this development. The Decembrists not only put

forward the slogan of struggle against serfdom and autocracy, but also organised an armed uprising against the absolutist monarchy. *P. I. Pestel* (1793-1826) developed an original project for solving the agrarian question in Russia. Pestel's draft constitution, which he called *Russkaya Pravda*, provided for the immediate and complete emancipation of the peasants from serfdom, as well as economic measures aimed at protecting the interests of the peasants in the future. To this end, Pestel considered it necessary to create a special public land fund, from which every peasant could receive free of charge for his use the land necessary for his subsistence. This fund must be formed at the expense of a part of the landlords' lands and the treasury, and a part of the land of the largest landlords must be alienated free of charge. The Decembrists, as revolutionaries who came from among the nobility, were far from the people, but their ideas of struggle against serfdom contributed to the growth of the revolutionary movement in Russia.

Under the conditions of the disintegration of feudalism and the birth of the capitalist system, the ideology of the bourgeoisie was formed, rising to its own domination. This ideology was directed against the feudal system and against religion as an ideological tool of the feudal lords. As a result, the worldview of the bourgeoisie fighting for power in a number of countries was progressive. Its most prominent representatives, economists and philosophers, strongly criticised all the foundations of feudal society: economic, political, religious, philosophical, and moral. They played an important role in the ideological preparation of the bourgeois revolution, exerting a progressive influence on the development of science and art.



## BRIEF CONCLUSIONS

1. Feudalism arose on the basis of the disintegration of slave-holding society and the disintegration of the rural community of tribes that conquered slave-holding states. In those countries where there was no slave-holding system, feudalism arose on the basis of the disintegration of the primitive-communal system. The tribal nobility and tribal warlords seized a large amount of land and distributed it to their retainers. There was a gradual enslavement of the peasants.

2. The basis of production relations of feudal society was the feudal lord's ownership of land and incomplete ownership of the production worker, the serf peasant. Along with feudal property, there was also the sole property of the peasant and artisan, based on personal labour. The labour of serfs was the basis of the existence of feudal society. Serfdom exploitation was expressed in the fact that the peasants were forced to serve in favour of the feudal lord *corvée*, or to pay him rent in kind and money. Serfdom was often not much different from slavery for the peasant. However, the serfdom system opened up some opportunities for the development of productive forces, since the peasant was able to work on his own farm for a certain part of the time and had some interest in labour.

3. The main features of the basic economic law of feudalism are approximately as follows: appropriation by feudal lords of surplus product for their parasitic consumption through the exploitation of dependent peasants on the basis of the feudal lord's ownership of land and his incomplete ownership of production workers - serfs.

4. Feudal society, especially in the early Middle Ages, was fragmented into small principalities and states. The ruling classes of feudal society were the nobility and the clergy. The peasant class had no political rights. Throughout the history of feudal society, there has been a class struggle

between peasants and feudal lords. The feudal state, expressing the interests of the nobility and the clergy, was an active force that helped them to strengthen the right of feudal ownership of land and to intensify the exploitation of the disenfranchised and oppressed peasants.

5. In the era of feudalism, agriculture played a predominant role, and the economy was mainly subsistence in nature. With the development of the social division of labour and exchange, the old cities that had survived the fall of the slave-holding system were revived, and new cities appeared. Cities were centres of crafts and trade. The craft was organised into guilds, which sought to prevent competition. Merchants united in merchant guilds.

6. The development of commodity production, disintegrating the natural economy, led to the differentiation of peasants and artisans. Merchant capital accelerated the disintegration of handicrafts and contributed to the emergence of capitalist enterprises—manufactures. Feudal restrictions and fragmentation hindered the growth of commodity production. In the course of further development, a national market was formed. A centralised feudal state arose in the form of absolutist monarchies.

7. The primitive accumulation of capital prepared the conditions for the emergence of capitalism. Huge masses of small producers—peasants and artisans—were deprived of the means of production. The great monetary wealth concentrated in the hands of large landowners, merchants, and usurers was created through the forcible dispossession of the peasantry, colonial trade, taxes, and the slave trade. In this way the formation of the main capitalist classes was accelerated. wage-earners and capitalists. In the depths of feudal society, more or less ready-made forms of the capitalist system grew up and matured.

8. Production relations of feudalism, low productivity of forced labour of serfs, guild restrictions. The revolts of the

serfs shook the feudal system and led to the abolition of serfdom. At the head of the struggle for the overthrow of feudalism stood the bourgeoisie. It used the revolutionary struggle of the peasants against the feudal lords to seize power. The bourgeois revolutions put an end to the feudal system, established the rule of capitalism, and opened the way for the development of the productive forces.

## **SECTION TWO. THE CAPITALIST MODE OF PRODUCTION.**

### **A. Pre-Monopoly Capitalism**

## CHAPTER IV. COMMODITY PRODUCTION. GOODS AND MONEY

### **Commodity Production is the Starting Point of the Emergence and the General Feature of Capitalism.**

The capitalist mode of production, which has replaced the feudal mode of production, is based on the exploitation of the wage-worker class by the capitalist class. In order to understand the essence of the capitalist mode of production, it is necessary first of all to bear in mind that the capitalist system is based on commodity production: here everything takes the form of a commodity, the principle of buying and selling prevails everywhere.

Commodity production is older than capitalist production. It existed under the slave-holding system and under feudalism. In the period of the disintegration of feudalism, simple commodity production served as the basis for the emergence of capitalist production.

Simple commodity production presupposes, firstly, the social division of labour, in which individual producers create heterogeneous products, and, secondly, the existence of private ownership of the means of production and the products of labour.

Simple commodity production of artisans and peasants differs from capitalist production in that it is based on the personal labour of the commodity producer. At the same time, it is fundamentally *identical* to capitalist production, since it is based on private ownership of the means of production. Private property inevitably gives rise to competition between commodity producers, which leads to the enrichment of the minority and to the ruin of the

majority. In view of this, small-scale commodity production serves as the starting point for the emergence and development of capitalist relations.

Under capitalism, commodity production assumes a dominant, universal character. The exchange of commodities, Lenin wrote, is “the simplest, the most ordinary, the most basic, the most massive, the most commonplace, the relation of bourgeois (commodity) society, which occurs billions of times.”<sup>21</sup>

### **The Product and its Properties. The Dual Character of Labour Embodied in the Commodity.**

A commodity is a thing which, in the first place, satisfies some human need, and, in the second place, is produced not for one’s own consumption, but for exchange.

The utility of a thing, its properties by virtue of which it can satisfy this or that need of people, make a thing a *use-value*. *Use-value* can either directly satisfy a person’s personal need or serve as a means of producing material goods. For example, bread satisfies the need for food, cloth satisfies the need for clothing; The use value of the loom consists in the fact that fabrics are produced with it. In the course of historical development, man discovers new useful properties of things and ways of using them.

Many things that are not at all created by human labour, such as the water in a spring or the fruits of wild trees, have a use-value. But not everything that has a use-value is a commodity. In order for a thing to become a commodity, it must be a product of labour produced for sale.

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<sup>21</sup> V. I. Lenin, Question and dialectic, Sochinenia, vol. XIII, ed. 3, p. 302.

Use-value constitutes the material content of wealth, whatever may be its social form. In commodity economy, use-value is the carrier of the exchange-value of the commodity. *Exchange-value* is primarily represented as a *quantitative relation* in which the use-values of one kind are exchanged for the use-values of another kind. For example, one axe is exchanged for 20 kilograms of grain. It is in this quantitative relation of the commodities exchanged that their exchangeable value is expressed. Commodities in certain quantities are equated with each other, hence they have a common basis. The physical properties of commodities determine their utility, their use value, and the use value of commodities is incomparable and quantitatively incommensurable.

Different commodities have only one property in common which makes them comparable in exchange, namely, that they are *products of labour*. The equality of the two exchanged commodities is based on the social labour expended in their production. When a commodity producer brings an axe to the market for exchange, he finds that his axe is worth 20 kilograms of grain. This means that an axe *costs* as much social labour as 20 kilograms of grain. The exchange-value of a commodity, therefore, is the form in which its value is manifested. *Value* is the social labour of commodity producers embodied in the commodity.

That the value of commodities is determined by the labour expended in their production is confirmed by well-known facts. Material goods, which are useful in themselves, but do not require the expenditure of labour, have no value, like air. Material goods that require a lot of labour have a high value, such as gold and diamonds. Many commodities, formerly expensive, have fallen considerably in price since the development of technology has reduced the amount of labour required to produce them.

Behind the exchange of commodities lies the social division of labour between the people who are the owners of

these commodities. Commodity producers, by equating different commodities with one another, thereby equate their different kinds of labour. Thus, the relations of production between commodity producers are expressed in value. These relations manifest themselves in the exchange of goods.

A commodity has a *dual* character: on the one hand, it is a use-value, and on the other hand, it is a value. The dual character of the commodity is due to the *dual character of the labour* embodied in the commodity. The kinds of labour are as varied as the use-values produced. The work of a carpenter is qualitatively different from that of a tailor, shoemaker, etc. Different kinds of work differ from each other in their aim, methods, tools, and, finally, results. A carpenter works with an axe, a saw, a planer and produces wood products: tables, chairs, cabinets; A tailor makes clothes with the help of a sewing machine, scissors, and a needle. Thus in every use-value a certain kind of labour is embodied: in the table, the labour of the carpenter, in the suit, the labour of the tailor, in the footwear, the labour of the shoemaker, and so on. Concrete labour creates the use-value of the commodity.

In exchange, the most diverse commodities produced by different kinds of concrete labour are compared with each other and equated with each other. Behind the different kinds of labour, therefore, there is something common to all labour. Both the work of the carpenter and the work of the tailor, in spite of the qualitative difference between these kinds of labour, is the productive expenditure of the human brain, nerves, muscles, etc., and in this sense is the same human labour, labour in general. The labour of commodity-producers, which appears as an expenditure of human labour-power *in general*, regardless of its concrete form, is abstract labour. Abstract labour forms the value of the commodity.



Abstract labour and concrete labour are the two aspects of labour embodied in the commodity. "All labour is, on the one hand, the expenditure of human labour-power in the physiological sense of the word, and in this capacity it is equal or abstractly human, labour constitutes the value of commodities. All labour, on the other hand, is the expenditure of human labour-power in a particularly purposeful form, and in this capacity of concrete useful labour it creates use-values."<sup>22</sup>

In a society dominated by private ownership of the means of production, the dual nature of the labour embodied in the commodity reflects the *contradiction between the private and social labour* of the commodity producers. Private ownership of the means of production *separates* people, makes the labour of the individual commodity producer his *private* affair. Each commodity producer conducts his economy separately from the others. The work of individual workers is not coordinated and linked across society. But, on the other hand, the social division of labour means *the existence of a comprehensive connection* between producers who work for each other. The more labour is divided in a society, the greater the variety of products produced by individual producers, the greater their mutual dependence on each other. Consequently, the labour of an individual commodity producer is essentially *social* labour, a part of the labour of society as a whole.

The contradiction of commodity production, therefore, lies in the fact that the labour of commodity producers, being their direct private affair, is at the same time of a social character. But this social character of labour in the process of production remains latent until the commodity enters the market and is exchanged for another commodity. It is only in the process of exchange that it is discovered whether the labour of this or that commodity producer is

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<sup>22</sup> K. Marx, Capital, Vol. I, 1953, p. 53.

necessary for society and whether it will receive social recognition.

Abstract labour, which forms the value of commodities, is a historical category peculiar only to commodity economy. In the natural economy, people produce products not for exchange, but for their own consumption, as a result of which the social character of their labour appears directly in its concrete form. For example, the feudal lord is interested in the labour of the serf mainly as concrete labour that creates certain products, which he appropriates in the form of *corvée* or rent. On the contrary, in commodity production, products are produced not for one's own consumption, but for sale. The social character of labour is revealed only on the market by the equalisation of one commodity to another, and this assimilation takes place by the reduction of concrete kinds of labour to abstract labour, which forms the value of the commodity. This process takes place spontaneously, as if behind the backs of commodity producers.

### **Simple and Complex Work. Socially Necessary Working Time.**

Workers of various qualifications are involved in the production of goods. The work of a worker who does not have any special training is *simple* work. Work that requires special training is *complex* or *skilled* work.

Complex labour creates a greater value per unit of time than simple labour. The value of the commodity created by complex labour includes part of the labour spent on the training of the worker. The reduction of all kinds of complex labour to simple labour is accomplished by spontaneous means. Complex labour acquires *the significance of multiplied* simple labour; An hour of complex labour is equal to several hours of simple labour.

*The magnitude of the value of the commodity is determined by the working time. The more time it takes to produce a given product, the higher its cost. It is known that individual commodity producers work under different conditions and spend different amounts of working time on the production of the same goods. Does this mean that the lazier the worker, the less favourable conditions he works in, the higher the value of the commodity will be? No, it doesn't. The magnitude of the value of a commodity is determined not by the individual labour time spent on the production of the commodity by an individual commodity producer, but by the socially necessary labour time.*

*Socially necessary labour time is the time required for the production of a commodity under the average social conditions of production, i.e., at an average level of technique, average skill and intensity of labour. Socially necessary labour time changes as a result of an increase in labour productivity.*

*Labour productivity is determined by the amount of output created per unit of working time. The productivity of labour increases as a result of the improvement or fuller use of the instruments of production, the development of science, the improvement of the skill of the worker, the rationalisation of labour, and other improvements in the process of production. The higher the productivity of labour, the shorter the time required to produce a unit of a given commodity, the lower the value of that commodity.*

*Labour intensity is determined by labour inputs per unit of time. The more labour is expended per unit of time, the greater is the magnitude of the value created, which is embodied in a greater quantity of commodities produced.*

## Development of Forms of Value. The Essence of Money.

The value of a commodity is created by labour in the process of production, but it can only be manifested through the equation of one commodity with another in the process of exchange, i.e., through exchange value.

The simplest form of value is the expression of the value of one commodity in another commodity: e.g., one axe = 20 kilograms of grain. Let's take a look at this form.


Here, the value of the axe is expressed in grain. Grain serves as a means of expressing the value of an axe. The expression of the value of the axe in terms of the use-value of the grain is possible only because labour has been expended in the production of grain, as well as in the production of the axe. A commodity which expresses its value in another commodity (in our example, an axe) is in *the relative form of value*. A commodity whose use-value serves as a means of expressing the value of another commodity (in our example, grain) is in *an equivalent form*. Grain is the equivalent (equivalence) of another commodity - an axe. The use-value of one commodity, grain, thus becomes the form of expression of the value of another commodity, the axe.

Initially, exchange, which originated in primitive society, was of an accidental character and took place in the form of a direct exchange of one product for another. Corresponding to this stage in the development of exchange is the *simple or accidental form of value*:

1 axe = 20 kilograms of grain.

In the simple form of value, the value of the axe can only be expressed in terms of the use-value of a single commodity, in this example, grain.

With the growth of the social division of labour, exchange becomes more regular. Individual tribes, such as pastoral tribes, begin to produce a surplus of livestock products, for which they exchange the agricultural or handicraft products they lack. Corresponding to this stage in the development of exchange is the *complete* or *expanded* form of value. Not two, but a number of goods are involved in the exchange:

1 sheep		= 40 kilograms of grain,
		= 20 meters of canvas,
		= 2 axes,
		= 3 grams of gold

Here the value of a commodity finds its expression in the use-value, not of one, but of many commodities which play the role of an equivalent. At the same time, the quantitative relations in which commodities are exchanged become more constant. At this stage, however, there is still a direct exchange of one commodity for another.

With the further development of the social division of labour and commodity production, the form of direct exchange of one commodity for another becomes insufficient. In the process of exchange, difficulties arise arising from the growth of the contradictions of commodity production. More and more often a situation arises when, for example, the owner of boots needs an axe, while the owner of the axe does not need boots, but grain: a transaction between these two owners of commodities cannot take place. Then the owner of the boots exchanges the boots for such a commodity as most often enters into the exchange,

and everyone willingly takes it, say, for a sheep, and then exchanges the axe he needs for this sheep. The owner of the axe, having received a sheep in exchange for the axe, exchanges it for grain. The direct exchange of one commodity for another gradually disappears. From among commodities there is one, for example, cattle, for which all commodities begin to be exchanged. Corresponding to this stage in the development of exchange is the *general* form of value:

$$\begin{array}{l} 40 \text{ kilograms of grain} = \\ \text{or} \\ 20 \text{ meters of canvas} = \\ \text{or} \\ 2 \text{ axes} = \\ \text{or} \\ 3 \text{ grams of gold} = \\ \text{etc.} \end{array} \left. \vphantom{\begin{array}{l} 40 \text{ kilograms of grain} = \\ 20 \text{ meters of canvas} = \\ 2 \text{ axes} = \\ 3 \text{ grams of gold} = \\ \text{etc.} \end{array}} \right\} 1 \text{ sheep}$$

The general form of value is characterised by the fact that all commodities begin to be exchanged for a commodity which plays the role of a *universal equivalent*. At this stage, however, the role of universal equivalent has not yet been assigned to any one commodity. In different localities, different commodities played the role of a universal equivalent. In some places, cattle, in others, furs, in others, salt, and so on.

Further growth of productive forces led to the development of commodity production and the expansion of the market. The abundance of different commodities playing the role of a universal equivalent came into conflict with the needs of a growing market, which demanded a transition to a single equivalent. This role was gradually assigned to the precious metals - silver and gold.

When the role of the universal equivalent was assigned to a single commodity, for example, gold, the *money* form of value appeared:

40 kilograms of grain =	}	3 grams of gold
or		
20 meters of canvas =		
or		
1 sheep =		
or		
2 axes =		
etc.		

The value of all commodities is now expressed in terms of the use-value of gold, which has become the universal equivalent.

*Money* is a commodity, which is the universal equivalent for all commodities; They embody social labour and express the relations of production between commodity producers. With the advent of money, the world of commodities is divided into two poles: at one pole there are all ordinary commodities, at the other pole there is a commodity that plays the role of money.

## Functions of Money.

With the spread of commodity production, the functions performed by money develop. In developed commodity production, money serves as (1) a measure of value, (2) a means of circulation, (3) a means of accumulation, (4) a means of payment, and (5) world money.

The main function of money is that it serves as a *measure of the value* of commodities. With the help of money, spontaneous accounting and measurement of the value of all goods is carried out. The value of a commodity cannot be expressed directly in terms of labour time, since in

the conditions of isolation and fragmentation of private commodity producers it is impossible to determine the amount of labour that not an individual commodity producer, but society as a whole spends on the production of this or that commodity. For this reason, the value of a commodity can be expressed only indirectly, by equating the commodity with money in the process of exchange.

In order to perform the function of a measure of value, money itself must be a commodity, possess value. Just as the weight of a body can only be measured by a weight that has weight, so the value of a commodity can only be measured by a commodity that has value.

The measurement of the value of commodities by means of gold takes place even before the commodity is exchanged for money. In order to express the value of goods in money, it is not necessary to have cash on hand. In fixing a certain price for a commodity, the owner mentally or, as Marx says, ideally, expresses the value of the commodity in terms of gold. This is possible because in reality there is a certain correlation between the value of gold and the value of a given commodity; This ratio is based on the socially necessary labour expended on their production.

The value of a commodity, expressed in terms of money, is called its price. *Price* is the monetary expression of the value of a commodity.

Commodities express their values in definite quantities of silver or gold. These quantities of the monetary commodity must in turn be measured. Hence the need for a unit of measurement for money. Such a unit is a certain weight quantity of the monetary metal.

In England, for example, the unit of currency is called the pound sterling; It once corresponded to a pound of silver. Subsequently, monetary units were separated from weight units. This was the result of the borrowing of foreign coins, the transition from silver to gold, and chiefly the deterioration of the coins by governments, which gradually



reduced their weight. For the convenience of measurement, monetary units are divided into smaller parts: the ruble—by 100 kopecks, the dollar—by 100 cents, the franc—by 100 centimes, etc.

The monetary unit, with its divisions, serves as *the scale* of prices. As a scale of prices, money plays an entirely different role than as a measure of value. As a measure of value, money measures the value of other commodities, and as a scale of prices, it measures the quantity of the monetary metal itself. The value of the commodity of money changes with the change in the quantity of labour socially necessary for its production. Changes in the value of gold do not affect its price scale function. No matter how the value of gold changes, a dollar is always a hundred times larger than a cent.

The state can change the gold content of the monetary unit, but it cannot change the value between gold and other commodities. If the government reduces the amount of gold contained in the monetary unit, i.e., lowers its gold content, the market will react by raising prices, and the value of the commodity will continue to be expressed in terms of such a quantity of gold as corresponds to the labour expended on the commodity. Only now, more monetary units are required to express the same amount of gold than before.

Commodity prices can rise or fall under the influence of changes in both the value of commodities and the value of gold. The value of gold, like all other commodities, depends on the productivity of labour. Thus, the discovery of America, with its rich gold deposits, and in particular the discovery of Brazilian mines in the XVII century, led to a revolution in prices. Gold was mined in America with less difficulty than in Europe. The influx of cheaper American gold into Europe caused a general rise in prices.

Money performs the function of a medium of circulation. The exchange of commodities by means of money is called the *circulation* of commodities. The circulation of

commodities is inseparably bound up with the circulation of money itself: when a commodity passes from the hands of the seller to the hands of the buyer, the money passes from the hands of the buyer to the hands of the seller. The function of money as a medium of circulation is that it acts as an intermediary in the process of circulation of commodities. To perform this function, the money must be available.

Originally, in the exchange of goods, money appeared directly in the form of silver or gold ingots. This created difficulties in the exchange: the need to weigh the monetary metal, break it into small pieces, and establish the sample. Gradually, ingots of monetary metal were replaced by coins. A *coin* is an ingot of metal of a certain shape, weight, and value, which serves as a legal medium of circulation. The minting of coins was concentrated in the hands of the state.

In the process of circulation, coins are worn out from use and lose some of their value. The practice of money circulation has shown that worn coins can perform the function of a medium of circulation on a par with full-fledged coins. This is due to the fact that money plays a fleeting role in the function of a medium of circulation. As a rule, the seller of a product takes money in exchange for it in order to buy another product with this money. Consequently, money as a medium of circulation must not necessarily have a value of its own.

Taking into account the practice of circulation of worn coins, governments began to deliberately deface the coin, reduce its weight, and reduce the fineness of the monetary metal, without changing the nominal value of the coin, that is, the number of monetary units indicated on it. Coins became more and more a sign of value, a *sign of money*. Their real value is much lower than what they represent nominally.

The bifurcation of commodities into commodities and money marks the development of the contradictions of

commodity production. In the direct exchange of one commodity for another, each transaction is isolated, the sale is inseparable from the purchase. Exchange by means of money, i.e., the circulation of commodities, is a different matter. Here, exchange presupposes a comprehensive connection between commodity producers and the incessant interweaving of their transactions. It opens up the possibility of separating the sale from the purchase. A commodity producer can sell his goods and delay the money received for them for the time being. When many commodity producers sell without buying, there may be a delay in the sale of goods. Thus, the possibility of crises is already inherent in the simple circulation of commodities. However, in order to transform this possibility of crises into their inevitability, a number of conditions are necessary, which arise only with the transition to the capitalist mode of production.

Money has the function of a store of value, or a means of *hoarding*. Since money is the universal representative of *wealth*, it can always be converted into any commodity. Money becomes a treasure when it is withdrawn from circulation. They can be stored in any quantity. Commodity producers accumulate money, for example, to buy means of production or as savings. Only full-fledged money can perform the function of a treasure: gold and silver coins, gold and silver ingots, as well as gold and silver items.

Money serves as a means of payment. Money acts as a means of payment in cases when the purchase and sale of goods is made on *credit*, that is, with a deferred *payment*. In the case of a purchase on credit, the transfer of goods from the hands of the seller to the hands of the buyer is made without immediate payment for the purchased goods. When the payment for the purchased goods is due, the money is paid by the buyer to the seller without the transfer of the goods that took place earlier. Money is also a means of payment in the payment of taxes, ground rent, etc.

The function of money as a means of payment reflects the further development of the contradictions of commodity production. Ties between individual commodity producers are becoming wider, and their dependence on each other is growing. Now the buyer becomes a debtor, the seller becomes a creditor. When many commodity owners buy goods on credit, the failure of one or more debtors to pay the bill on time can affect the entire chain of payment obligations and cause the bankruptcy of a number of commodity owners connected with each other by credit relations. In this way, the possibility of crises, which is already inherent in the function of money as a medium of circulation, is strengthened.

An examination of the functions of money as a medium of circulation and as a means of payment makes it possible to elucidate the law which determines the quantity of money necessary for the circulation of commodities.

Goods are bought and sold in many places at the same time. The amount of money required for circulation at a given moment depends primarily on the sum of the prices of the goods in circulation, which in turn depends on the quantity of goods and on the price of each individual product. In addition, it is necessary to take into account the speed with which money circulates. The faster money circulates, the less it is needed for circulation, and vice versa. If, for example, during a given period, say, a year, goods worth 1 billion dollars are sold, and each dollar on average makes 5 revolutions, then 200 million dollars will be required to circulate the entire mass of goods.

Thanks to the credit provided by commodity producers to each other, the need for money is reduced by the sum of the prices of commodities sold on credit and by the amount of mutually repayable payments. Cash is required only to pay off those debts that are due.

Thus, the law of the circulation of money is that the quantity of money required for the circulation of commodities must be equal to the sum of the prices of all commodities *divided by the average number of turnovers of*

the units of money of the same name. In this case, it is necessary to subtract from the sum of the prices of all commodities the sum of the prices of the commodities sold on credit and the amount of mutually redeemable payments, and add the sum of payments for which payment has come due.

This law is of universal importance for all social formations with commodity production and circulation.

Finally, money plays the role of *world money* in the circulation between countries. The role of world money cannot be fulfilled by inferior coins or paper money. On the world market, money sheds its form of coin and appears in its original form—ingots of precious metals. On the world market, gold is the universal means of purchase, the universal means of payment, and the universal embodiment of social wealth.

The development of the functions of money expresses the growth of commodity production and its contradictions. Under the conditions of commodity production based on private ownership of the means of production, money becomes a means of exploitation of man by man.

## **Gold and Paper Money.**

When gold coins are used as money, their quantity is spontaneously adapted to the needs of commodity circulation. With a decrease in the production of goods and a decrease in turnover, a part of the gold coins goes out of circulation and turns into a treasure. When production expands and turnover increases, these coins re-enter circulation.

With the development of commodity production, paper money is often used instead of gold coins for purchases and payments. The issue of paper money was generated by the

practice of circulating worn-out and depreciated coins, which were turned into tokens of gold, into tokens of money.

*Paper money* is a state-issued, obligatory banknote that replaces gold in its function as a medium of circulation. Paper money has no intrinsic value. They cannot, therefore, function as a measure of the value of commodities. Whatever amount of paper money is issued, it represents only the value of the quantity of gold which is necessary to service the circulation of goods. Paper money is not redeemable for gold.

If paper money is issued according to the quantity of gold required for circulation, then the purchasing power of paper money, i.e., the quantity of commodities that can be bought with it, coincides with the purchasing power of gold money. But usually the state issues paper money to cover its expenses, especially in times of war, crisis, and other upheavals, regardless of the needs of trade. In the contraction of production and the circulation of commodities, or in the issuance of an excessive quantity of paper money, there is more of it than the quantity of gold required for circulation. Let's say that twice as much money is issued as necessary. In this case, each paper currency unit (dollar, mark, franc, etc.) would represent half the amount of gold, i.e., the paper money would be worth half as much.

The first attempts to issue paper money date back to the end of the XVII-beginning of the XVIII century: in the USA—in 1692 (due to the war against Canada), in France—in 1716; England entered the path of issuing paper money during the Napoleonic wars. In Russia, paper money was first issued under Catherine II.

The excessive issue of paper money, which causes its depreciation and is used by the ruling classes to shift the state expenditure onto the shoulders of the working masses and to intensify their exploitation, is called inflation. Inflation, which causes a rise in food prices, hits the working

people the hardest, since the wages of workers and employees lag behind the rise in prices. The capitalists and landlords benefit from inflation.

## **The Law of Value is the Economic Law of Commodity Production.**

In a commodity economy based on private property, the production of commodities is carried out by separate private commodity producers. There is a competitive struggle between commodity producers. Each strives to push aside the other, to maintain and expand its position in the market. Production is carried out without any general plan. Everyone produces on his own, independently of the others, no one knows what the demand for the commodity he produces is, and how many other commodity producers are engaged in the production of the same commodity, whether he will be able to sell the commodity on the market and whether the labour he has expended will be replaced. With the development of commodity production, the power of the market over commodity producers is becoming more and more strengthened.

This means that in commodity production, which is based on private ownership of the means of production, the economic law of *competition and anarchy of production operates*. This law expresses the spontaneous character of production and exchange, the struggle between private commodity producers for more favourable conditions for the production and sale of commodities.

Under the conditions of anarchy of production reigning in a commodity economy based on private property, the law of value, acting through market competition, acts as a spontaneous regulator of production.

The law of value is the economic law of commodity production, according to which the exchange of commodities takes place in accordance with the quantity of socially necessary labour expended on their production.

The law of value spontaneously *regulates the distribution of social labour and means of production among the various branches of commodity economy through the mechanism of prices*. Under the influence of fluctuations in the relation of supply and demand, the prices of commodities are constantly deviating up or down from their value. Deviations of prices from value are not the result of a defect in the operation of the law of value, but, on the contrary, the only possible way of its realisation. In a society where production is in the hands of private owners working blindly, only spontaneous fluctuations in prices on the market let commodity producers know which products are produced in excess or insufficient quantities in comparison with the effective demand of the population. Only spontaneous fluctuations of prices around value force commodity producers to expand or reduce the production of certain commodities. Under the influence of price fluctuations, commodity producers rush to those industries that seem to be more profitable at the moment.

On the basis of the law of value, the *productive forces of commodity economy are developed*. As is well known, the magnitude of the value of a commodity is determined by socially necessary labour. Commodity producers, who for the first time employ higher technics, produce their commodities at lower costs as compared with socially necessary expenditures, and they sell these commodities at prices corresponding to socially necessary labour. When they sell goods, they get a surplus of money and get rich. This encourages other producers to introduce technical improvements at their enterprises. Thus, as a result of the disparate actions of individual commodity producers striving



for personal benefit, the progress of technology takes place, and the productive forces of society develop.

As a result of competition and anarchy of production, the distribution of labour and means of production between branches and the development of productive forces in commodity economy is achieved by the accumulation of great losses of social labour and leads to an ever greater aggravation of the contradictions of this economy.

Under the conditions of commodity production based on private property, the operation of the law of value leads to the *emergence and development of capitalist relations*. Spontaneous fluctuations of market prices around value, deviations of individual labour inputs from socially necessary labour, which determines the magnitude of the value of commodities, intensify economic inequality and the struggle between commodity producers. Competition leads to the fact that some commodity producers *go bankrupt* and perish, while others *enrich themselves*. The operation of the law of value thus causes stratification among commodity producers. “Small-scale production gives *birth* to capitalism and the bourgeoisie constantly, daily, hourly, spontaneously and on a mass scale.”<sup>23</sup>

## Commodity Fetishism.

Under the conditions of commodity production, which is based on private ownership of the means of production, the social bond between people that exists in the process of production is manifested only through the exchange of things-commodities. The fate of commodity producers turns out to be closely connected with the fate of the things created by them—commodities. Prices for commodities

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<sup>23</sup> V. I. Lenin, *Infantile Disease of 'Leftism' in Communism*, Works, vol. 31, pp. 7-8.

change continuously regardless of the will and consciousness of people, and yet the price level is often a matter of life and death for commodity producers.

The relations of things disguise the social relations of men. So, the cost of the goods. It expresses the social relation between commodity producers, and it appears to be as natural a property of a commodity as, say, its colour or weight.

Thus, in a commodity economy based on private property, the relations of production of people inevitably appear as relations between things—commodities. In this objectification of the relations of production lies the commodity *fetishism* inherent in commodity production.<sup>24</sup>

Commodity fetishism is especially evident in money. In the commodity economy, money is a great power that gives power over people. Money can buy everything. This ability to buy everything is pretended to be a natural property of gold, but in reality it is the result of certain social relations.

Commodity fetishism has deep roots in commodity production, where the labour of the commodity producer directly appears as private labour and its social character is manifested only in the exchange of commodities. It is only with the abolition of private ownership of the means of production that commodity fetishism disappears.

## BRIEF CONCLUSIONS

*1. The starting point of the emergence of capitalism was the simple commodity production of artisans and peasants. Simple commodity production differs from capitalist production in that it is based on the personal*

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<sup>24</sup> The reification of relations of production inherent in commodity production is called 'commodity fetishism' because of its similarity to religious fetishism, which consists in the deification by primitive people of objects made by themselves.

*labour of the commodity producer. At the same time, it is fundamentally the same as capitalist production, since it is based on private ownership of the means of production. Under capitalism, when not only the products of labour, but also labour power become a commodity, Commodity production assumes a dominant, universal character.*

*2. A commodity is a product produced for exchange. It represents, on the one hand, a use-value, and on the other, a value. The labour which creates the commodity has a dual character. Concrete labour is labour expended in a definite form; it creates the use-value of the commodity. Abstract labour is the expenditure of human labour-power in general; it creates the value of the commodity.*

*3. The contradiction of simple commodity production lies in the fact that the labour of commodity producers, being their direct private affair, at the same time has a social character. Value is the social labour of commodity producers embodied in the commodity. Value is a historical category peculiar only to commodity economy. The magnitude of the value of a commodity is determined by the labour socially necessary for its production.*

*4. The development of the contradictions of commodity production leads to the fact that one commodity spontaneously emerges from the environment of commodities, which becomes money. Money is a commodity that plays the role of a universal equivalent. Money performs the following functions: (1) a measure of value, (2) a medium of circulation, (3) a means of accumulation, (4) a means of payment, and (5) a means of world money.*

*5. With the growth of money circulation, paper money appears. Paper money, having no intrinsic value, is a sign of metalogical money and replaces it as a medium of circulation. Excessive issuance of paper money, which causes its depreciation (inflation), leads to a decrease in the standard of living of the working people.*

6. *In a commodity economy based on private ownership of the means of production, the law of value is a spontaneous regulator. The law of value regulates the distribution of social labour and the exchange of commodities by means of constant fluctuations in prices. The operation of the law of value determines the stratification of small commodity producers and the development of capitalist relations.*

## CHAPTER V: CAPITALIST SIMPLE CO-OPERATION AND MANUFACTURE

### Capitalist Simple Co-operation.

Capitalism first subordinates production as it finds it, i.e., with the backward technique of handicraft and small-peasant farming, and only later, at a higher stage of its development, does it transform it on new economic and technical foundations.

The development of capitalist production in industry is characterised by the following three main stages: (1) capitalist simple co-operation, (2) the manufacturing period, and (3) the machine period.

Capitalist production begins where the means of production are concentrated in private hands and the workers, deprived of the means of production, are forced to sell their labour power as a commodity. In handicraft production and in peasant trades, comparatively large workshops belonging to capitalists are formed. The capitalists expand the scope of production, without at first changing either the instruments or the methods of labour of the small producers. This initial stage in the development of capitalist production is called capitalist simple co-operation.

*Simple capitalist co-operation* is a form of socialisation of labour in which the capitalist exploits a more or less considerable number of wage-labourers employed at the same time and performing homogeneous work. Capitalist simple co-operatives arise on the basis of the disintegration of small-scale commodity production. The first capitalist enterprises were founded by merchants-buyers, usurers, rich craftsmen, artisans and handicraftsmen. Bankrupt artisans, apprentices who had lost the opportunity to become

independent masters, and the rural poor worked at these enterprises.

Capitalist simple co-operation has advantages over small-scale commodity production.

The association of many workers in one enterprise results in savings in the means of production. It is cheaper to build, heat and light one workshop for 20 people than to build and maintain 10 workshops for 2 workers each. The cost of tools, storage facilities, transportation of raw materials and finished products is also reduced.

The results of the work of an individual artisan depend entirely on his individual characteristics - strength, dexterity, art, etc. Under the conditions of primitive technology, these differences between workers are very great. For this reason alone, the position of the small producer is extremely precarious. Commodity producers who expend more labour on the production of the same type of commodity than is required under the average conditions of production are inevitably ruined. If there are many workers in the workshop, the individual differences between them are smoothed out. The labour of individual labourers deviates in one direction or another from the average social labour, but the aggregate labour of many labourers employed at the same time more or less corresponds to the average socially necessary labour. As a result, the production and sale of the commodities of the capitalist workshop become more regular and durable.

With simple cooperation, labour is saved and its productivity increases.

Let's take the example of passing bricks manually along a chain of workers. Each individual worker here performs the same movements, but his actions are part of the same general operation. As a result, things go much faster than when everyone individually carries a brick. Ten men working together produce more in a working day than the same ten men working separately from each other, or than one man in ten working days of the same duration.

Cooperation makes it possible to carry out work simultaneously over a large area, for example, in the drainage of swamps, the construction of dams, canals, railways, and also makes it possible to expend a considerable amount of labour in a small space, for example, in the construction of buildings or in the cultivation of labour-intensive crops.

Co-operation is of great importance in those branches of production where certain works must be carried out in a short time, for example, harvesting, shearing sheep, etc. The simultaneous employment of a large number of workers makes it possible to carry out such work in a short time and thereby prevent large losses.

In this way, cooperation gave rise to *a new social productive force of labour*. Simply combining the efforts of individual workers led to an increase in productivity. This gave the owners of the first capitalist workshops the opportunity to produce goods cheaper and successfully compete with small producers. The results of the new social productive power of labour were appropriated by the capitalist gratuitously and served the purposes of his enrichment.

## **The Manufacturing Period of Capitalism.**

The development of simple capitalist co-operatives led to the emergence of manufactures. *Manufacture* is capitalist co-operation based on the division of labour and handicraft technique. Manufacture as a form of the capitalist process of production prevailed in Western Europe from about the middle of the XVI century to the last third of the XVIII century. It is the second, higher, stage of the development of capitalist production.

Manufacture arose in two ways.

The first way is for the capitalist to unite artisans of *different* specialties in one workshop. Thus arose, for example, the carriage manufactory, which united within its walls formerly independent artisans: carriage makers, saddlers, tailors, locksmiths, coppersmiths, turners, clerks, glaziers, painters, varnishers, etc. In manufactory, the production of the carriage is divided into a large number of different complementary operations, each of which is performed by a separate worker. As a consequence, the former character of handicraft work is changing. For example, a locksmith for a long time is now engaged only in a certain operation in the manufacture of carriages, and gradually ceases to be the locksmith who previously made the finished goods himself.

The second way is for the capitalist to unite artisans of *the same* specialty in one workshop. Previously, each of the artisans independently carried out all operations for the production of this product. The capitalist divides the process of production in the workshop into a number of separate operations, each of which is entrusted to a specialist worker. This is how the needle manufactory, for example, came into being. In the needle manufactory, the wire passed through the hands of 72 or more workers: one pulled, another straightened the wire, a third cut it, a fourth sharpened the ends, and so on.

The manufactory division of labour is the division of labour within an enterprise in the production of the same commodity, as opposed to the division of labour in society between individual enterprises in *the production of different* commodities.

The division of labour within manufacture presupposes the concentration of the means of production in the hands of the capitalist, who is at the same time the owner of the commodities produced. A hired worker, unlike a small commodity producer, does not produce commodities on his own; It is only the common product of the labour of many



workers that becomes a commodity. The division of labour within society presupposes the fragmentation of the means of production between separate, independent commodity producers. The products of their labour, e.g., that of a carpenter, a tanner, a shoemaker, or a farmer, appear as commodities, and the connection between independent commodity producers is established by means of the market.

The worker who performs a separate operation in the manufacture of a commodity is a *part-time* worker. By constantly repeating the same simple operation, he spends less time and effort on it than an artisan who performs a number of different operations in turn. At the same time, when there is specialisation, work becomes more intensive. Previously, the worker spent a certain amount of time switching from one operation to another, changing tools. In the manufactory, these losses of labour-time were reduced. Gradually, specialisation spread not only to the worker, but also to the instruments of production; They were perfected, more and more adapted to the partial operation for which they were intended.

All this led to a further increase in labour productivity.

A striking example is the manufacture of needles. In the XVIII century, a small manufactory with 10 workers produced 48,000 needles per day under the division of labour, which means that there were 4,800 needles per worker. Without the division of labour, however, one worker would not be able to produce even 20 needles a day.

The specialisation of labour in the manufactory, associated with the constant repetition of the same simple movements, disfigured the worker physically and mentally. There were workers with a curved spine, with a compressed chest, and so on. Thus, the increase in labour productivity in the manufactory was achieved by crippling the worker. 'Manufacture turns the worker into a freak, artificially

cultivating in him only one-sided skill and suppressing the whole world of his productive inclinations and talents.”<sup>25</sup>

The workers of the manufactory were brutally exploited. The working day was 18 hours or more; wages were extremely low—the overwhelming majority of manufacturing workers lived from hand to mouth; The new, capitalist discipline of labour was introduced by the most ruthless measures of coercion and violence.

The manufacturing division of labour, wrote Marx, “creates new conditions for the domination of capital over labour. If, therefore, on the one hand, it is a historical progress and a necessary moment in the economic development of society, on the other hand it is an instrument of civilised and refined exploitation.”<sup>26</sup>

In slave-holding and feudal societies there were two types of capital—trade and usury. The emergence of capitalist production meant the emergence of industrial capital. *Industrial* capital is capital employed in the production of commodities. One of the characteristic features of the manufacturing period of capitalism is the close and indissoluble connection between commercial and industrial capital. The owner of the manufactory almost always acted as a buyer. He resold raw materials to small commodity producers, distributed the material to houses for dressing, or bought individual parts of products from small commodity producers, bought products from them for subsequent resale. The sale of raw materials and the purchase of products were intertwined with usurious bondage. This greatly worsened the position of the small producer, led to a lengthening of his working day and to a decrease in his earnings.

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<sup>25</sup> K. Marx, *Capital*, vol. I, 1953, p. 368.

<sup>26</sup> *Ibid.*, p. 372.

## Capitalist Work at Home.

In the manufacturing period of capitalism, the distribution of work to the home was very widespread.

*Capitalist work at home* is the domestic processing of material received from the employer for piecework. This form of exploitation was encountered occasionally in simple cooperation. It also takes place in the period of large-scale machine industry, but it is characteristic of manufacture. Capitalist work at home appears here as *an appendage* of manufacture.

The manufactory division of labour divided the production of each commodity into a series of separate operations. Often it was advantageous for the buyer-manufacturer to set up a comparatively small workshop, where only the assembly or final finishing of the goods was carried out. All preparatory operations were carried out by artisans and handicraftsmen who worked in their own homes, but were completely dependent on the capitalist. Often, the artisans, scattered in different villages, did not deal with the owner of the assembly workshop, but with intermediaries-craftsmen who additionally exploited the handicraftsmen. Handicraftsmen and artisans who worked at home received wages from the capitalist, which were much lower than the wages of the worker employed in the capitalist's workshop. Masses of peasants were involved in the trade, and the need for money forced them to look for a side job. In order to earn a small amount of money, the peasant was exhausted and forced all the members of his family to work. Excessively long working hours, unsanitary working conditions, the most ruthless exploitation - these are the distinguishing features of capitalist work at home.

These features characterize numerous handicrafts in tsarist Russia. The buyers, who were the actual masters of

handicrafts in a village or district, made extensive use of the division of labour among the handicraftsmen. For example, in the Zavyalovs' establishment in Pavlovo (in the assembly workshop of which more than 60 workers were employed in the 100s of the last century), an ordinary penknife passed through the hands of 8-9 handicraftsmen. A farrier, a climber, a cutting-maker, a hardener, a glosser, a finisher, a guide, and a brander worked on it. At the same time, a considerable number of part-time workers were employed not in the capitalist's workshop, but in their own homes. In the same way, carriage fishing, felting, a number of woodworking, shoemaking, buttoning, etc., were organised.

Numerous examples of the cruel exploitation of handicraftsmen are given by V. I. Lenin in his work *The Development of Capitalism in Russia*. For example, in the Moscow province in the early 80s of the last century, 37.5 thousand workers were engaged in unwinding paper yarn, knitting and other women's crafts. Children started working at the age of 5 or 6. The average daily wage was 13 kopecks; The working day was up to 18 hours.

## **The Historical Role of the Manufactory.**

Manufacture was a transitional form from small-scale production by artisans and handicraftsmen to large-scale capitalist machine industry. Manufactory was similar to handicraft in that it was based on manual technique, and from the capitalist factory in that it was large-scale production based on the exploitation of hired workers.

The manufacturing division of labour was a significant step forward in the development of society's productive forces. But manufacture, based on manual labour, was not in a position to supplant small-scale production. Typical of capitalist manufacture is a small number of comparatively large establishments, together with a considerable number of small ones. A certain part of the commodities was produced

by manufactures, and the overwhelming majority were still supplied by artisans and handicraftsmen, who were in varying degrees dependent on capitalists, buyers, distributors, and manufacturers. Thus, manufacture could not embrace social production in its entirety. It was like a superstructure; Small-scale production with its primitive technique was still the basis.

The historical role of manufacture has been to prepare the necessary conditions for the transition to machine production, and in this respect three circumstances are particularly important. In the first place, manufacture, by bringing the division of labour to a high degree, simplified many labour operations. They were reduced to such simple movements that it became possible to replace the hands of the worker with a machine. Secondly, the development of manufacture led to the specialisation of tools, to their considerable improvement, as a result of which the transition from hand tools to machines was possible. Thirdly, the manufacture has trained a cadre of skilled workmen for the large-scale machine industry, owing to their long specialisation in the performance of particular operations.

Small-scale commodity production, capitalist simple co-operatives, and manufacture with its appendage—capitalist work at home, are now widespread in the economically backward and underdeveloped countries—India, Turkey, Iran, and others.

### **Disintegration of the Peasantry. Transition from Corvée to Capitalist Farming.**

In the manufacturing period of the development of capitalism, industry became more and more isolated from agriculture.

The growth of the social division of labour led to the fact that not only industrial products, but also agricultural products were transformed into commodities. In agriculture, there was a specialisation of regions by crops and branches. Regions of *commercial* agriculture arose: flax growing, sugar beet production, cotton-growing, tobacco growing, dairy farming, cheese making, etc. On this basis, exchange developed not only between industry and agriculture, but also between various branches of agriculture.

The further commodity production penetrated into agriculture, the stronger the competition between farmers became. The peasant became more and more dependent on the market. Spontaneous fluctuations in prices on the market intensified and exacerbated property inequality among the peasants. In the hands of the well-to-do upper class of the village, free money was accumulating. This money was used for enslavement and exploitation of poor peasants and turned into capital. One of the means of such enslavement was the purchase of the products of the peasants' labour for a pittance. Gradually, the ruin of the peasants reached such an extent that many of them were forced to abandon their farms altogether and sell their labour power.

Thus, with the development of the social division of labour, with the growth of commodity production, the process of disintegration of the peasantry took place; Capitalist relations were taking shape in the countryside, and new social types of the rural population were emerging, which constituted the classes of capitalist society—the rural bourgeoisie and the agricultural proletariat.

*The rural bourgeoisie, or kulaks*, conduct commodity economy on the basis of the use of wage labour, the exploitation of permanent farm labourers, and still more of day-labourers and other temporary labourers hired for seasonal field work. The kulaks concentrate in their hands a considerable share of the land (including rented land), draught animals, and agricultural products. In the hands of

the kulaks there are also enterprises for the processing of raw materials, mills, threshing machines, pedigree producers, etc. Kulaks usually also act as village usurers and shopkeepers. All this serves as a means of exploiting the poor peasants and a large part of the middle peasantry.

*The agricultural proletariat* is a mass of farm labourers, deprived of the means of production and exploited by the landlords and the rural bourgeoisie. The main source of subsistence of the agricultural proletarian is the sale of his labour-power. A typical representative of the rural proletariat is the *wage-worker with an allotment*. The insignificant size of the farm on a piece of land, the absence of draught animals and implements, inevitably compel such a peasant to sell his labour-power.

The agricultural proletariat is joined by the rural poor. The *poor* peasant has a small plot of land and a small number of livestock. Such a peasant does not have enough bread of his own. The money he needs for food, clothing, housekeeping, and taxes, he is forced to earn to a large extent by hired work. Such a peasant has half ceased to be a proprietor and is a rural semi-proletarian. The standard of living of the poor man, like that of the rural proletarian, is very low, and is inferior even to that of the industrial worker. The development of capitalism in agriculture leads to an ever-increasing number of the ranks of the rural proletariat and the poor peasants.

An intermediate link between the rural bourgeoisie and the poor peasants is the middle peasantry.

*The middle peasantry* manages its economy on the basis of its own means of production and personal labour. The labour of the middle peasant on his farm ensures the maintenance of his family only under favourable conditions. Hence the instability of the position of the middle peasant. "In its social relations this group oscillates between the higher, to which it gravitates and into which only a small fortunate minority succeeds, and the lower, into which it is

pushed by the whole course of social evolution.<sup>27</sup> The middle peasantry is being ruined, “washed out”.

Capitalist relations in the agriculture of the bourgeois countries are intertwined with the survivals of serfdom. The bourgeoisie, having come to power, did not abolish large-scale feudal landownership in most countries. The landlord economy gradually adapted itself to capitalism. The peasantry, freed from serfdom but deprived of a considerable part of its land, was suffocated by a shortage of land. It was forced to lease land from landlords on enslaving terms.

In Russia, for example, after the reform of 1861, the most common form of exploitation of peasants by landlords was labour, in which the peasant was forced to work in the landlord's economy for renting land or paying off an enslaving loan, using his own means of production - draught power and primitive implements.

The disintegration of the peasantry undermined the foundations of the landlord economy, which was carried out by means of labour and exploitation of the economically dependent peasant and was based on backward technology. A well-to-do peasant had the opportunity to rent land for money and therefore did not need to rent indentured servitude for work. The poor man was also unfit for the labour system, but for a different reason: without the means of production, he turned into a wage worker. The landlord could employ mainly the middle peasantry for work. But the development of commodity farming and commercial agriculture, ruining the middle peasantry, undermined the labour system of farming. The landlords expanded the use of hired labour, which is more productive than the labour of the dependent peasant; The importance of the capitalist system of economy increased, while that of the labour system declined. However, labour, as a direct survival of *corvée*,

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<sup>27</sup> V. I. Lenin, *The Development of Capitalism in Russia*, Essays, vol. 3, p. 148.



persisted for a long time along with the capitalist system of economy.

## **Formation of an Internal Market for Capitalist Industry.**

With the development of capitalism in industry and agriculture, the process of formation of the *domestic market* took place.

Already in the manufacturing period a number of new branches of industrial production arose. Various types of industrial processing of agricultural raw materials were separated from agriculture one after another. With the growth of industry, the demand for agricultural products increased more and more. In this regard, the market expanded. Areas that specialised in the production of, for example, cotton, flax, sugar beets, as well as in the breeding of productive livestock, showed demand for bread. Agriculture increased the demand for a variety of industrial products.

The internal market for capitalist industry is created by the very development of capitalism and by the disintegration of the small commodity producers. "The separation of the direct producer from the means of production, i.e., his expropriation, marking the transition from simple commodity production to capitalist production (and constituting a necessary condition for this transition), *creates* the home market."<sup>28</sup> The process of creating an internal market was two-sided. On the one hand, the urban and rural bourgeoisie demanded the means of production: improved tools, machines, raw materials, etc., necessary for the expansion of existing capitalist enterprises and the construction of new

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<sup>28</sup> V. I. Lenin, *The Development of Capitalism in Russia*, Works, vol. 3, pp. 45-46.

ones. The bourgeoisie's demand for consumer goods grew. On the other hand, the increase in the number of the industrial and agricultural proletariat, which was inseparably linked with the disintegration of the peasantry, was accompanied by an increase in the demand for the commodities which are the means of subsistence of the worker.

Manufactures based on primitive technology and manual labour were unable to meet the growing demand for manufactured goods. There was an economic need for the transition to large-scale machine production.

## BRIEF CONCLUSIONS

1. The first stage in the development of capitalist production in industry is capitalist industrial co-operation, which arises from small-scale commodity production. Capitalist simple co-operation is a form of production based on the exploitation by an individual capitalist of a more or less considerable number of wage-labourers employed at the same time, who perform homogeneous work. Capitalist simple co-operatives ensured economy in the means of production, created new social productive force of labour, reduced labour costs per unit of output. The results of the growth of the productive power of social labour were appropriated by the capitalists free of charge.

2. The second stage in the development of capitalist production in industry is manufacture. Manufacture is large-scale capitalist production based on manual technique and the division of labour among wage-workers. The manufacturing division of labour greatly increased the productivity of labour, but at the same time it disfigured the wage-labourer, condemning him to an extremely one-sided development. The manufactory created the necessary

*prerequisites for the transition to a large-scale machine industry.*

3. The development of commodity production leads to the disintegration of the peasantry. A small upper stratum of the countryside goes over to the ranks of the bourgeoisie; Large masses of the peasantry are passing over to the ranks of the proletariat, both urban and rural; the mass of the poor is growing; The vast intermediate stratum of the middle peasantry is ruined. The disintegration of the peasantry undermines the foundations of the labour system. The landlords are increasingly passing from corvée to capitalist farming.

4. The internal market is created by the development of capitalism itself. The expansion of the domestic market meant an increase in demand for the means of production and the means of subsistence. Manufacture, based on backward technology and manual labour, was unable to satisfy the increased demand for manufactured goods. There was a need to switch to the machine industry.

## CHAPTER VI. THE MACHINE AGE OF CAPITALISM

### Transition from Manufacture to Machine Industry.

As long as production was based on manual labour, as it was in the manufacturing period, capitalism could not bring about a radical transformation of the entire economic life of society. This transformation took place with the transition from manufacture to machine industry, which began to emerge in the last third of the eighteenth century and spread to the most important capitalist countries of Europe and the United States during the nineteenth century. Large-scale machine industry is the third and highest stage in the development of capitalist production.

The transition from manufactory to machine industry meant a complete technical revolution in production. The material and technical basis of this revolution was *the machine*.

Every developed machine consists of three parts: (1) the engine machine, (2) the transmission mechanism, and (3) the working machine.

*The machine-engine* acts as the driving force of the entire mechanism. It either generates its own motive power (e.g., a steam-engine) or receives it from without, from some ready-made force of nature (e.g., a waterwheel driven by the force of falling water).

*The transmission mechanism* consists of all kinds of devices (transmissions, gears, belts, electric drives, etc.) that regulate the movement, change its shape if necessary (for example, turn it from a straight line to a circular one),

distribute it and transfer it to the working machine. Both the motor machine and the transmission mechanism serve to drive the working machine.

*The working machine* acts directly on the object of labour and makes the necessary changes in it in accordance with the set purpose. If we look more closely at the working machine, we will find, though often in a very modified form, in general the same tools that are used in manual labour. But in all cases these are no longer tools of manual labour, but tools-mechanisms, mechanical tools. The working machine was the starting point of the revolution which led to the replacement of manufacture by machine production. After the invention of mechanical tools, there were fundamental changes in the design of propulsion and transmission mechanisms.

In its insatiable pursuit of profit, capital has found in the machine a powerful means of increasing the productivity of labour. In the first place, the use of machines operating simultaneously with many instruments freed the production process from the narrow framework caused by the limitations of the human organs. Secondly, the use of machines made it possible for the first time to use in the process of production enormous new sources of energy - the motive power of steam, gas and electricity. Thirdly, the use of machinery has made it possible for capital to put science at the service of production, which expands man's power over nature and opens up ever new possibilities for increasing the productivity of labour. On the basis of large-scale machine industry, the dominance of the capitalist mode of production was established.

## **The Industrial Revolution.**

The beginning of large-scale machine industry was laid in England. In this country there were favourable historical conditions for the rapid development of the capitalist mode

of production: the early abolition of serfdom and the abolition of feudal fragmentation, the victory of the bourgeois revolution in the seventeenth century, the forcible dispossession of the peasantry, and the accumulation of capital through widespread trade and the plundering of the colonies.

In the middle of the 18th century, England was a country with a large number of manufactures. The most important branch of industry was textile production. It was from this branch that the *industrial revolution* that took place in England during the last third of the eighteenth century and the first quarter of the nineteenth century began.

The expansion of the market and the pursuit of profit by the capitalists necessitated the improvement of the technique of production. In the cotton industry, which developed faster than other branches of production, manual labour prevailed. The main operations in the cotton industry are spinning and weaving. The product of the spinners' labour is the object of the weaver's labour. The growth in demand for cotton fabrics affected primarily the weaving technique: in 1733, the *airplane shuttle* was invented, which doubled the productivity of the weaver. This caused spinning to lag behind weaving. In manufactories, looms were often idle due to a lack of yarn. There was an urgent need to improve the spinning technique.

This problem was solved by the invention (in 1765-1767) of spinning machines, 65 each of which had one and a half to two dozen spindles. The motive power of the first machines was man himself or working cattle, then there were machines that were driven by the power of water. Further technical improvements allowed not only to increase the production of yarn, but also to improve its quality. At the end of the 18th century, there were already spinning machines with up to 400 spindles. As a result of these inventions, the productivity of labour in spinning has greatly increased.

A new disparity has now arisen in the cotton industry: spinning has overtaken weaving. This discrepancy was eliminated by the invention of the power loom in 1785. After a number of improvements, the *power loom* became widespread in England and by the 40s of the XIX century completely replaced hand weaving. The processes of fabric processing—bleaching, dyeing, printing - have also undergone radical changes. The use of chemicals has reduced the duration of these processes and improved the quality of products.

The first textile factories were built along riverbeds, and machines were powered by water wheels. This severely limited the possibilities of using machine technology. A new type of engine was needed, regardless of the terrain and season. Such an engine was the steam engine (invented in Russia in 1763, but not widespread at that time; in England the *steam engine* was invented in 1784).

The use of the steam engine was of great importance. A steam engine is an engine of universal importance, free from the many disadvantages inherent in a water engine. By consuming coal and water, the steam engine produces a motive power which is entirely under the control of man. This machine is mobile; It frees industry from its attachment to natural energy sources and makes it possible to concentrate production anywhere.

The steam engine began to spread rapidly not only in England, but also abroad, creating the prerequisites for the emergence of large factories with many machines and a large number of workers.

Machines have revolutionised manufacturing in all industries. They covered not only cotton production, but were also used in the wool, linen, and silk industries. Ways were soon found to use the steam engine in transport: in 1807, the first steamboat was built in the United States, and in 1825, the first railroad was built in England.

Initially, machines were made in manufactories with the help of manual labour. They were expensive, not powerful enough, and they weren't perfect enough. The manufactories could not produce the number of machinery required for the rapidly growing industry. The problem was solved by the transition to machine production of machines. A new, rapidly developing branch of industry emerged - *mechanical engineering*. The first machines were made mainly of wood. Then the wooden parts of the machines began to be replaced by metal ones. The substitution of metal for wood, by increasing the durability and strength of machines, made it possible to work at a speed and with a strain that had previously been unthinkable. At the beginning of the 19th century, mechanical hammers, presses, metalworking machines were invented: lathe, then milling and drilling.

For the production of machines, locomotives, rails, and steamships, huge quantities of iron and steel were needed. Metallurgy began to develop rapidly. Of great importance in the development of *metallurgy* was the discovery of a method for smelting iron ores using mineral fuel instead of wood. Blast furnaces were improved more and more. From the 30s of the XIX century, cold blast began to be replaced by hot blast, which accelerated the blast furnace process and gave great fuel savings. New, more advanced methods of steel smelting were discovered. The spread of the steam engine and the growth of metallurgy caused the need for huge quantities of coal, which led to the rapid growth of the coal industry.

As a result of the industrial revolution, England became the industrial workshop of the world. Following England, machine production began to spread to other countries of Europe and America.

The Industrial Revolution in France took place over several decades after the bourgeois revolution of 1789-1794. Dominant position in industry of France, the capitalist factory occupied only the second half of the XIX century.



In Germany, due to its feudal fragmentation and long-term preservation serf relations, the industrial revolution took place later than in England and France. Large industry began to develop in Germany only in the 40s years of the XIX century and especially quickly—after the unification of Germany into a single state in 1871

In the United States of America, large-scale industry emerged at the beginning of the XIX century. The American machine industry began to develop rapidly after the Civil War of 1861-1865. At the same time, the technical achievements of English industry were widely used, as well as the influx of free capital and skilled workers from Europe.

In *Russia*, the transition from manufacture to the machine stage of production began before the abolition of serfdom, but unfolded in full scope in the first decades after the peasant reform of 1861. This had a particularly striking effect on the mining industry of the Urals.

## Capitalist Industrialisation.

The Industrial Revolution marked the beginning of capitalist industrialisation. The basis of industrialisation is heavy industry and the production of means of production.

Capitalist industrialisation is carried out spontaneously, in the pursuit of profit by the capitalists. It usually begins with the development of *light* industry, that is, branches that produce goods for personal consumption. In these industries, less investment is required, capital is turned over more quickly, and it is easier to make a profit than in *heavy industry*, that is, in industries that produce tools and other means of production, such as machinery, metal, and fuel. Heavy industry begins to develop only after a long period of time, during which light industry accumulates profits. These profits are gradually being pumped into heavy industry. Capitalist industrialisation, then, is a process that has been going on for many decades.

In England, for example, the textile industry grew faster than others for a long time. During the first half of the nineteenth century, it remained the main, most developed branch of English industry. In the second half of the XIX century, heavy industry began to play a predominant role. The same consistency in the development of branches of industry took place in other capitalist countries.

In the second half of the 19th century, metallurgy continued to develop; improved metal smelting technology, the size of blast furnaces increased. Grew quickly iron production. In England, pig iron production increased from 193 thousand tons in 1800, rose to 2,285 thousand tons in 1850, 6,059 thousand tons in 1871 and 7,873 thousand tons in 1880; in the USA—from 41 thousand tons in 1800 to 573 thousand tons in 1850, 1,692 thousand tons in 1870 and 3,897 thousand tons in 1880.

Until the last third of the XIX century, the steam engine remained the only type of engine used in large-scale industry and transport. Steam played a huge role in development of the machine industry. Throughout the XIX century further improvement of the steam engine—the power of steam engines increased, the degree use of thermal energy. In the 80s of the XIX century, a steam turbine was created. Thanks to its advantages, it began to displace the steam engine in a number of industries.

However, the more large-scale industry grew, the more rapidly the insufficiency of steam as a motive power was discovered. A new type of engine was invented, the *internal combustion engine*, first a gas engine (1877) and then a liquid fuel engine, the diesel engine (1893). In the last third of the XIX century, a new powerful force entered the arena of economic life, which revolutionised production even more: *electricity*.

In the XIX century, machine technology embraced one branch of industry after another. The mining industry is developing, i.e. the extraction of ore and coal. In connection

with the invention of the internal combustion engine, oil production is increasing. The chemical industry is developing widely. The rapid growth of the large-scale machine industry was accompanied by the intensive construction of railways.

Capitalist industrialisation is carried out both through the exploitation of wage workers and the ruin of the peasantry of one's own country, and through the robbery of the working people of other countries, especially the colonies. It inevitably leads to an aggravation of the contradictions of capitalism and to the impoverishment of the vast masses of workers, peasants and artisans.

History knows various paths of capitalist industrialisation. The first path of capitalist industrialisation is the way of seizing and plundering colonies. This is how the industry of England developed. Having seized colonies in all parts of the world, England in the course of two centuries siphoned off enormous profits from them and invested them in her industry.

The second path is the path of war and indemnities levied by the victorious countries on defeated countries. Thus, Germany, having defeated France in the Franco-Prussian War, forced she paid 5 billion francs in indemnity and invested it in her industry.

The third way is the path of enslaving concessions and loans, which lead to the economic and political dependence of the backward countries on the capitalistically developed countries. Tsarist Russia, for example, leased concessions and received loans from the Western powers on onerous terms, thus trying to gradually get out on the path of industrialisation. This led to the transformation of Tsarist Russia into a semi-colony.

In the history of individual countries, these different paths of capitalist industrialisation have often intertwined and complemented each other. An example of this is the history of the economic development of the United States of America. Large-scale U.S. industry was created through

foreign loans and long-term credits, as well as through the unbridled plundering of the Native American population.

In spite of the development of the machine industry in the bourgeois countries, the vast majority of the population of the capitalist world continues to live and work under the domination of primitive manual technics.

## **Growth of Cities and Industrial Centres. The Formation of a Proletarian Class.**

Capitalist industrialisation led to the rapid growth of cities and industrial centres. The number of large cities in Europe (with a population of over 100 thousand) increased 7 times during the XIX century. The share of the urban population continuously increased at the expense of the rural population. In England already in the middle of the XIX century, and in Germany by the beginning of the XX century, more than half of the total population was concentrated in cities.

In the manufacturing period of capitalism the masses of wage-workers did not yet constitute an established class of proletarians. The workers in the manufactories were comparatively few in number, largely connected with agriculture, scattered among a multitude of small workshops, and divided by all sorts of narrow guild interests.

As a result of the industrial revolution and the further development of machine industry, *an industrial proletariat* was formed in the capitalist countries. The number of the working class grew rapidly, and its ranks were constantly replenished at the expense of the impoverished peasantry and artisans.

With the growth of large-scale machine industry, the local, guild, and class interests and prejudices of the first generations of workers, their utopian aspirations to regain

the lost position of the medieval handicraftsman, gradually became obsolete. The masses of workers rallied into a single class, the proletariat. Describing the formation of the proletariat as a class, Engels wrote: "Only the development of capitalist production, modern industry and agriculture on a large scale has given the character of permanence to its existence, increased it numerically, and shaped it as a special class, with special interests and with a special historical mission."<sup>29</sup>

In England, the number of workers in industry and transport in the second decade of the XIX century was about 2 million; over the next hundred years it more than tripled.

*In France, there were about 2 million workers in industry and transport in the sixties of the XIX century, and by the beginning of the XX century their number was about 3.8 million.*

In the United States of America, the number of industrial and transportation workers was 1.8 million in 1859, and 6.8 million in 1899.

*In Germany, the number of industrial and transport workers increased from 700,000 in 1848 to 5 million in 1895.*

In Russia, after the abolition of serfdom, the process of forming a working class rapidly progressed. In 1865, 706,000 workers were employed in large factories and factories, in the mining industry and on the railways, and in 1890-1,433 thousand. Thus, the number of workers in large capitalist enterprises has more than doubled in 25 years. By the end of the 1890s, in 50 provinces of European Russia, the number of workers in large factories and factories, in the mining industry and on railways increased to 2,207 thousand, and throughout Russia to 2,792 thousand.

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<sup>29</sup> F. Engels, *The Labour Movement in America*, K. Marx and F. Engels, *Works*, vol. XVI, part I. p. 287.

## Capitalist Factory. Machine as a Means of Exploitation of Wage Labour by Capital.

A *capitalist factory* is a large-scale industrial enterprise based on the exploitation of wage workers and employing a system of machines for the production of commodities.

A *system of machines* is a set of working machines that simultaneously perform the same production operations (e.g., homogeneous looms), or a set of heterogeneous but mutually complementary working machines. A heterogeneous machine system is a combination of partial working machines based on the division of production operations between them. Each partial machine gives work to another machine. Since all these machines operate simultaneously, the product is continuously at different stages of the production process, passing from one phase of production to another.

By means of machines, *the mechanisation* of labour is carried out. The use of machines provides a huge increase in labour productivity and a decrease in the cost of goods. A machine makes it possible to produce the same quantity of commodities with much less labour, or to produce much more commodities with the same expenditure of labour.

In the XIX century, processing the same amount of cotton into yarn using a machine required 180 times less working time than with a manual spinning wheel. With the help of a machine, one adult worker or teenager printed the same amount of four-color calico per hour as 200 adult workers used to print with manual labour. In the XVIII century, under the manufacturing division of labour, a worker prepared 4,800 needles a day; in the XIX century, a single worker, working simultaneously on 4 machines, produced up to 600,000 needles a day.

Under the capitalist mode of production, all the benefits of the use of machinery are appropriated by the owners of these machines, the capitalists, whose profits are growing.

The factory is the highest form of capitalist co-operation. Capitalist co-operation, as joint labour performed on a comparatively large scale, necessitates a special function of management, supervision, and coordination of individual work. In a capitalist enterprise, the function of management is carried out by the capitalist and has specific features, appearing at the same time as a function of the exploitation of wage workers by capital. A capitalist is not a capitalist because he manages an industrial enterprise; on the contrary, he becomes the manager of an enterprise because he is a capitalist.

Already in the case of simple capitalist co-operation, the capitalist frees himself from manual labour. With the increase in the scale of co-operation of labour, he also frees himself from the function of direct and constant supervision of the workers. These functions are delegated to a special category of hired workers, the managers, the foremen, who command the enterprise on behalf of the capitalist. Capitalist governance is despotic in nature.

With the transition to the factory, the creation of a special, capitalist discipline of labour by capital is completed. The capitalist discipline of labour is the *discipline of hunger*. The worker is constantly under the threat of dismissal from the factory, under the threat of finding himself in the ranks of the unemployed. The capitalist factory is characterised by barracks discipline. Workers are punished with monetary fines and deductions from wages.

The machine itself is a powerful means of facilitating work and increasing its productivity. But under capitalism the machine serves as a means of intensifying the exploitation of wage labour.

From the very beginning of its application, the machine becomes a competitor of the worker. Capitalist use of machinery primarily deprives tens and hundreds of thousands of manual labourers of their means of subsistence, which become redundant. So, with the widespread introduction of

steam looms, 800,000 English weavers were thrown out on the street. Millions of Indian weavers were condemned to starvation and death, as Indian hand-made fabrics could not withstand the competition of English machine-made fabrics. As a result of the increasing use of machines and their improvement, more and more hired workers are being displaced by machines, thrown out of the capitalist factory and onto the streets, adding to the growing army of unemployed.

The machine simplifies the production process, makes the use of great muscular force of the worker superfluous. Therefore, with the transition to machine technics, capital is widely involved in the production of women and children. The capitalist forces them to work in difficult conditions, for miserable wages. This entails a high infant mortality rate in working-class families and physical and moral mutilation of women and children.

The machine opens up wide possibilities of reducing the labour time required for the production of commodities and thus creates the conditions for the shortening of the working day. The capitalist use of machinery, however, tends to lengthen the working-day. In the pursuit of profit, the capitalist strives to make the fullest use of the machine. In the first place, the longer the useful action of a machine during the working day, the sooner it pays for itself. Secondly, the longer the working day and the fuller the use of machinery, the less danger there is that it will become technically obsolete and that other capitalists will have time to introduce better or less expensive machinery in their own country, thereby finding themselves in more advantageous conditions of production. The capitalist, therefore, strives to lengthen the working day as much as possible.

In the hands of the capitalist, the machine is used to squeeze more labour out of the worker in a given time. Excessive intensity of labour, cramped factory premises, lack of air and light, lack of necessary measures for labour



protection lead to mass occupational diseases of workers, to undermining their health and shortening their lives.

Machine technics opens up a wide field for the use of science in the process of production, for giving labour a more meaningful, creative character. But the capitalist use of machinery leads to the transformation of the worker into *an appendage to the machine*. The workers are left with only monotonous, exhausting physical labour. Mental work becomes the privilege of special workers: engineers, technicians, scientists. Science is separated from labour and serves capital. Under capitalism, *the antagonism between physical and mental labour* is becoming more and more pronounced.

The machine marks the strengthening of man's power over the forces of nature. By increasing the productivity of labour, the machine increases the wealth of society. But this wealth goes to the capitalists, and the position of the worker, the class, the main productive force of society, is deteriorating more and more.

Marx proved in *Capital* that it is not the machines themselves that are the enemy of the working class, but the capitalist system under which they are used. He wrote that "the machine itself reduces working time, while its capitalist use lengthens the working day... in itself it makes labour easier, while its capitalist use increases its intensity... in itself it marks the victory of man over the forces of nature, capitalist its use enslaves man to the forces of nature... in itself it increases the wealth of the producer, but in capitalist use it turns him into a pauper"<sup>30</sup>.

From the very emergence of capitalist relations, the class struggle begins between wage workers and capitalists. It is carried out throughout the entire manufacturing period, and with the transition to machine production it acquires a wide scope and unprecedented sharpness.

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<sup>30</sup> K. Marx, *Capital*, vol. I, 1953, pp. 446 - 447.

The first expression of protest by the immature labour movement against the harmful consequences of the capitalist use of machine technology was attempts to destroy machines. The first shearing machine, invented in 1758, was burned by workers who, with the introduction of this machine, were left without work. At the beginning of the XIX century, a widespread movement of “machine destroyers” developed in the industrial districts of England, directed primarily against the steam loom. It took a certain amount of time and experience for the working class to realize that its oppression and misery do not come from the machines themselves, but from their capitalist application.

The capitalists widely used the machine as a powerful tool to suppress the periodic disturbances of workers, strikes, etc., directed against the autocracy of capital. After 1830 a significant number of inventions were brought to life in England directly by the interests of the class struggle of capitalists against workers, the desire capitalists, by reducing the number of employed workers and using less skilled labour, break the resistance of workers to the oppression of capital.

Thus the capitalist use of machinery causes a deterioration in the condition of the workers, an aggravation of the class contradictions between labour and capital.

## **Large-Scale Industry and Agriculture.**

The development of large-scale industry led to the use of machinery in agriculture as well. The possibility of using machines is one of the most important advantages of large-scale production. Machines enormously increase the productivity of labour in agriculture. But they are not available to small peasant farms, since the purchase of machines requires significant funds. The machine can be

used efficiently in the presence of large sown areas, in the introduction of industrial crops into production, etc. In a large-scale farm based on machine technics, the cost of labour per unit of output is much lower than in a small peasant economy based on backward technics and manual labour. As a consequence, small peasant farming cannot withstand competition from large-scale capitalist farming.

The spread of agricultural machinery under capitalist conditions accelerates the process of stratification of the peasantry. "The systematic use of machinery in agriculture displaces the patriarchal 'average' peasant as inexorably as the steam loom displaces the manual artisan weaver."<sup>31</sup> Capitalism raises the technique of agriculture and advances it, but it cannot do this otherwise than by ruining the mass of small producers. At the same time, hired labour in agriculture is so cheap that many large farms do not use machines, but prefer to use manual labour. This hinders the development of machinery in agricultural production.

The capitalist use of machinery in agriculture is inevitably accompanied by an intensification of the exploitation of the agricultural proletariat by increasing the intensity of labour. For example, a type of reaping machines, which was widespread at the time, was called "lobogres", since working on them required a lot of physical exertion.

In the machine period of capitalism the separation of industry from agriculture is completed, and *the antagonism between town and country* deepens and becomes more acute. Under capitalism, agriculture lags excessively behind industry in its development. Lenin pointed out that the agriculture of the capitalist countries at the beginning of the XX century was closer to the manufacturing stage in terms of its technical and economic level.

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<sup>31</sup> V. I. Lenin, *The Development of Capitalism in Russia*, Essays, vol. 3, pp. 193-194.

The introduction of machinery into agricultural production under capitalism occurs much more slowly than in industry. If the steam engine made it possible to carry out fundamental technical changes in industry, then in agriculture it found application only in the form of steam thresher. The complex mechanical threshing machine subsequently combined threshing, cleaning and sorting of grain. Only in the last quarter of the XIX century did horse-drawn grain harvesting machines become widespread—reapers-binders. The caterpillar tractor was invented back in the 80s of the last century, and the wheeled one—at the beginning of the XX century, but more or less widespread. The use of tractors in large capitalist farms began only in the 20s of this century, mainly in the USA. However, in the agriculture of most countries of the capitalist world, to this day the main driving force is draft animals, and the tools for cultivating the soil are a horse-drawn plough, a harrow, and a cultivator.

### **Capitalist Socialisation of Labour and Production. The Limits of the Use of Machines under Capitalism.**

On the basis of machine technics under capitalism, great progress was made in the development of the productive forces of society in comparison with the feudal mode of production. Large-scale machine industry has effected a profound revolution in the entire structure of economic life. The machine was a revolutionary force that transformed society.

"The transition from the manufactory to the factory marks a complete technical revolution that overthrows the manual skill of the master that has been acquired for centuries, and this technical revolution inevitably leads to the most drastic breakdown in the social relations of production, a final split between the various groups of people involved in production, a complete break with

tradition, an aggravation and expansion of all the dark sides of capitalism, mass socialisation of labour by capitalism. Large-scale machine industry is thus the last word of capitalism, the last word of its negative and "positive aspects".<sup>32</sup>

On the basis of large-scale machine industry, a spontaneous process of broad *socialisation of labour* by capital is taking place.

First, as a result of the use of machinery, industrial production is increasingly concentrated in large enterprises. The machine itself requires the joint work of many workers.

Secondly, under capitalism there is a further development of the social division of labour. The number of industries and agriculture is increasing. At the same time, individual industries and enterprises are becoming more and more dependent on each other. With the wide specialisation of industries, the manufacturer who produces, for example, fabrics, becomes directly dependent on the manufacturer who produces yarn, the latter on the capitalist who produces cotton, on the owner of the machine-building factory, the coal mines, etc.

Thirdly, the fragmentation of small economic units inherent in subsistence farming disappears, and the local small markets merge into a huge national and world market.

Fourthly, capitalism with its machinery displaces various forms of personal dependence of the worker. The basis of production is free hired labour. A greater mobility of the population is created, which ensures a continuous influx of labour into growing industries.

Fifth, with the spread of machine production, many industrial centres and large cities appeared. Society is increasingly splitting into two main antagonistic classes, the capitalist class and the wage worker class.

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<sup>32</sup> V. I. Lenin, *The Development of Capitalism in Russia*, Works, vol. 3, p. 397.

The socialisation of labour and production, achieved on the basis of machine technics, was a significant step forward in the progressive development of society. But the self-interested interests of the capitalists, who strive for profit, set certain limits to the development of the productive forces.

From the social point of view, the employment of a machine is advantageous if the labour which it costs to produce the machine is less than the labour which is saved by its employment, and also if the machine facilitates labour. For the capitalist, however, what matters is not the economy of social labour or the lightening of the labourer's labour, but the economy of wages. The limit of the use of machinery for the capitalist is, therefore, narrower. It is determined by the difference between the price of the machine and the wages of the workers it displaces. The lower the wages of the workers, the weaker is the tendency of the capitalist to introduce machinery. That is why manual labour is still widely used in industry even in the most developed capitalist countries.

Large-scale machine industry intensified the competitive struggle among the capitalists and intensified the spontaneity and anarchy of all social production. The capitalist use of machinery brought with it not only the rapid development of the productive forces of society, but also an unprecedented increase in the oppression of labour by capital, the sharpening of all the contradictions of the capitalist mode of production.

## **BRIEF CONCLUSIONS**

*1. The transition from manufacture to large-scale machine industry meant the Industrial Revolution. Of great importance for the transition to the machine industry were*

*the invention of the steam engine, the improvement of the method of smelting metal, and the creation of machines that produced machines. The machine conquered one area of production after another.*

*2. With the growth of capitalism, the process of capitalist industrialisation of the most important countries of Europe and America takes place. Capitalist industrialisation usually begins with the development of light industry. In the industrialisation of the capitalist countries, an important role is played by the plundering of colonies and vanquished countries, as well as by the acquisition of enslaving loans. Capitalist industrialisation is based on the exploitation of wage labour and intensifies the ruin of the broad masses of the peasantry and artisans. It leads to a further growth of the social division of labour, completes the separation of industry from agriculture, and sharpens the antagonism between town and country.*

*3. A capitalist factory is a large-scale enterprise based on the exploitation of wage workers and employing a system of machines for the production of commodities. The management of the capitalist factory is despotic. In capitalist society, the use of machinery is accompanied by an increase in the severity of the labour of the wage worker, an intensification of his exploitation, and the involvement in production of women and children who receive miserable wages. Capitalist machine production completes the process of separating mental labour from physical labour and sharpens the antagonism between them.*

*4. The development of large-scale machine industry leads to the growth of cities, the increase of the urban population at the expense of the rural population, the formation of a class of wage workers, the proletariat, and an increase in its number. Under capitalism, agriculture lags far behind industry. The growing use of machinery in agriculture accelerates the process of disintegration of the peasantry.*

5. *Large-scale machine industry plays a historically progressive role, leading to an increase in labour productivity and to the socialisation of labour by capital. The limits of the capitalist use of machinery are determined by the fact that the capitalists introduce the machine only when its price is less than the wages of the workers displaced by the machine.*



## CHAPTER VII. CAPITAL AND SURPLUS-VALUE. THE BASIC ECONOMIC LAW OF CAPITALISM

### **The Basis of the Relations of Production of the Capitalist System.**

With the transition from manufacture to large-scale machine industry, the capitalist mode of production became dominant. In industry, instead of handicraft workshops and manufactories based on manual labour, factories and plants appeared, in which labour was armed with complex machines. Large-scale capitalist economies began to emerge in agriculture, using agricultural machinery and agricultural machinery. New technics have grown, new productive forces have been formed, and new, capitalist relations of production have taken a dominant position. The study of the relations of production in capitalist society in their origin, development, and decline constitutes the main content of Marx's Capital.

The basis of the relations of production of bourgeois society is capitalist ownership of the means of production. *Capitalist ownership* of the means of production is the non-labour private property of the capitalists, which is used for the exploitation of wage-workers. According to

Marx's classic characterisation, "the capitalist mode of production rests on the fact that the material conditions of production, in the form of ownership of capital and ownership of land, are in the hands of the non-workers, while

the masses possess only the personal condition of production, labour-power.”<sup>33</sup>

Capitalist production is based on wage labour. Wage workers are free from the bondage of serfdom. But they are deprived of the means of production and are forced to sell their labour-power to the capitalists under the threat of starvation. The exploitation of the proletariat by the bourgeoisie is the main feature of capitalism, and the relation between the bourgeoisie and the proletariat is the basic class relation of the capitalist system.

In countries where the capitalist mode of production predominates, side by side with capitalist relations, there are more or less significant remnants of pre-capitalist forms of economy. There is no “pure capitalism” in any country. In addition to capitalist property, in bourgeois countries there is large-scale landed property of landlords, as well as small-scale private property of simple commodity producers—peasants and artisans who live by their own labour. Small-scale production plays a subordinate role under capitalism. The mass of small commodity producers in town and country is exploited by the capitalists and landlords, the owners of factories and plants, banks, commercial enterprises, and land.

The capitalist mode of production passes through two stages in its development: pre-monopoly and monopolistic. The general economic laws of capitalism operate at both stages of its development. At the same time, monopoly capitalism has a number of essential features, which will be discussed later.

Let us now proceed to consider the essence of capitalist exploitation.

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<sup>33</sup> K. Marx, Critique of the Gotha Program, K. Marx, F. Engels, Selected Works, vol. II, 1945, p. 16.

## **The Transformation of Money into Capital. Labour Power as a Commodity.**

Each capital begins its journey in the form of a certain amount of money. Money in itself is not capital. When, for example, independent small commodity producers exchange commodities, money acts as a medium of circulation, but it does not serve as capital. The formula of commodity circulation is as follows:  $C$  (commodity) —  $M$  (money) —  $C$  (commodity), i.e., the sale of one commodity for the purchase of another. Money becomes capital when it is used for the exploitation of the labour of others. The general formula of capital is  $M - C - M$ , i.e., buying for sale for the purpose of enrichment.

The formula  $C - M - C$  means that one use-value is exchanged for another: the commodity-producer gives away the commodity which he does not need, and receives in exchange another commodity which he needs for consumption. On the contrary, in the formula  $M - C - M$ , the starting and ending points of the movement coincide: at the beginning of the journey the capitalist had money, and at the end of the journey he has money. The movement of capital would be aimless if, at the end of the operation, the capitalist had the same amount of money as he had at the beginning. The whole point of the capitalist's activity is that as a result of the operation he has more money than he had at the beginning. The general formula of capital, therefore, in its full form, is  $M - C - M'$ , where  $M'$  denotes an increased sum of money.

The capital advanced by the capitalist, i.e., put into circulation by him, returns to its owner with a certain increase. This increase of capital is the aim of its owner.

Where do capital gains come from? Bourgeois economists, in order to conceal the real source of the enrichment of the capitalists, often assert that this increase arises from the

circulation of commodities. Such an assertion is untenable. Indeed. If commodities and money of equal value, i.e., equivalents, are exchanged, none of the owners of commodities can derive from circulation a greater value than that embodied in his commodity. If sellers manage to sell their goods above their value by, say, 10%, then when they become buyers, they must overpay sellers the same 10%. Thus, what the owners of goods gain as sellers, they lose as buyers. In reality, however, the growth of capital takes place in the case of the entire capitalist class. It is evident that the owner of money, who has become a capitalist, must find on the market a commodity which, when consumed, creates a value greater than that which he himself possesses. In other words, the owner of money must find on the market a commodity whose use-value itself has the property of being a source of value. Such a commodity is labour power.

*Labour-power* is the sum total of the physical and spiritual faculties which man possesses and which he employs when he produces material goods. In any form of society, labour power is a necessary element of production. But it is only under capitalism that labour power becomes a commodity.

*Capitalism* is commodity production at the highest stage of its development, when labour-power also becomes a commodity. With the transformation of labour power into a commodity, commodity production assumes a *universal* character. Capitalist production is based on wage labour, and the hiring of the labourer by the capitalist is nothing but the purchase and sale of the commodity labour-power: the labourer sells his labour-power, the capitalist buys it.

By hiring a worker, the capitalist has his labour-power at his complete disposal. The capitalist employs this labour-power in the process of capitalist production, in which the growth of capital takes place.

## **The Value and Use-Value of Labour-Power. The Law of Surplus-Value is the Basic Law of Capitalism.**

Like any other commodity, labour-power is sold at a certain price, which is based on the value of that commodity. What is this cost?

In order for the worker to retain the ability to work, he must satisfy his food needs; clothes, shoes, housing. The satisfaction of the necessities of life is the restoration of the expended vital energy of the worker - muscular, nervous, cerebral - and the restoration of his working capacity. Further, capital needs a continuous supply of labour-power; As a consequence, the worker must be able to support not only himself, but also his family. This ensures the reproduction, i.e., the constant renewal of labour power. Finally, capital needs not only untrained workers, but also skilled workers who know how to operate complex machines, and the acquisition of skills involves a certain amount of training labour. Therefore, the costs of production and reproduction of labour-power also include a certain minimum expenditure on the education of the rising generations of the working class.

From all this it follows that the value of the *commodity labour-power* is equal to the value of the means of subsistence necessary for the maintenance of the labourer and his family. "The value of labour-power, like that of any other commodity, is determined by the labour-time necessary for the production, and consequently for the reproduction, of this specific article of trade."<sup>34</sup>

In the course of the historical development of society, both the level of the ordinary needs of the worker and the means of satisfying these needs change. The level of the ordinary needs of the worker varies from country to country.

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<sup>34</sup> K. Marx, Capital, vol. I, 1953, p. 177.

The peculiarities of the historical path traversed by a given country and the conditions in which the class of wage workers was formed largely determine the nature of its needs. Climatic and other natural conditions also exert a certain influence on the worker's needs for food, clothing, and housing. The value of labour-power includes not only the value of the articles of consumption necessary for the restoration of man's physical strength, but also the cost of satisfying the cultural needs of the worker and his family (the education of children, the purchase of newspapers, books, visits to the cinema, the theatre, and so on). Capitalists always and everywhere strive to reduce the material and cultural conditions of life of the working class to the lowest level.

When the capitalist sets to work, he buys everything necessary for production: buildings, machinery, equipment, raw materials, fuel. Then he hires workers, and the production process begins in the enterprise. When the commodity is ready, the capitalist sells it. The value of the finished commodity includes: first, the value of the means of production expended—processed raw materials, consumed fuel, a certain part of the value of buildings, machinery and tools; Secondly, the new value created by the labour of the workers in the enterprise.

What is this new value?

Let us assume that an hour of simple average labour creates a value equal to \$1, and the daily value of labour is equal to \$6. In this case, to recover the daily cost of his labour power, the worker must work for 6 hours. But the capitalist bought labour for the whole day, and he forces the proletarian to work not for 6 hours, but for a whole working day, which lasts, let's say, 12 hours. During these 12 hours the worker creates a value equal to 12 dollars, while the value of his labour power is equal to 6 dollars.

Now we see what the specific use-value of the commodity, the labour-power, consists in for the buyer of

this commodity, the capitalist. *The use-value of a commodity, labour-power*, is its property of being a source of value, and a greater value than it possesses.

The value of labour-power and the value created in the process of its consumption are two different magnitudes. The difference between these two magnitudes is a necessary prerequisite for capitalist exploitation. The capitalist mode of production presupposes a comparatively high level of labour productivity, in which the worker needs only a part of the working day to create value equal to the value of his labour-power.

In our example, the capitalist, having spent \$6 in hiring a worker, obtains a value of \$12 created by the labourer's labour. The capitalist recovers the capital originally advanced with an increment or surplus of \$6. This increment constitutes surplus value.

Surplus-value is the value created by the labour of the wage-labourer over and above the value of his *labour-power* and appropriated by the capitalist free of charge. Thus surplus-value is the result of the unpaid labour of the labourer.

The working day in a capitalist enterprise is divided into two parts: necessary labour time and surplus labour time, and the labour of the wage-labourer is divided into necessary and surplus labour. In the course of the necessary labour-time the labourer reproduces the value of his labour-power, and in the course of surplus-labour time he creates surplus-value.

The labour of the worker under capitalism is the process of the capitalist's consumption of labour-power, or the process of squeezing surplus-value out of the labourer by the capitalist. The labour process under capitalism is characterised by two fundamental features. In the first place, the worker works under the control of the capitalist, to whom the worker's labour belongs. Secondly, the capitalist owns not only the labour of the worker, but also

the product of that labour. These peculiarities of the labour process turn the labour of the wage worker into a heavy and shameful burden.

The immediate aim of capitalist production is the production of surplus value. According to this, under capitalism there is only such labour as creates surplus-value. If the worker does not create surplus value, his labour is unproductive labour, unnecessary for capital.

In contrast to the previous forms of exploitation—slave-holding and feudal-capitalist exploitation has a disguised character. When the wage-labourer sells his labour-power to the capitalist, this transaction appears at first sight to be an ordinary transaction between the owners of commodities, an ordinary exchange of commodities for money, carried out in full accordance with the law of value. However, the transaction of the purchase and sale of labour-power is only an external form, behind which is concealed the exploitation of the worker by the capitalist, the appropriation by the employer without any equivalent of the unpaid labour of the worker.

In elucidating the essence of capitalist exploitation, we assume that the capitalist, by hiring a worker, pays him the full value of his labour-power—in strict accordance with the law of value. In what follows, when considering wages, it will be shown that, unlike the prices of other commodities, the price of labour power tends to deviate downward from its value. This further increases the exploitation of the working class by the capitalist class.

Capitalism enables the wage-worker to work and, consequently, to live only in so far as he works for the capitalist for a certain amount of time for nothing. Having left one capitalist enterprise, the worker, in the most favourable case for him, ends up in another capitalist enterprise, where he is subjected to the same exploitation. Exposing the system of hired labour as a system of hired slavery, Marx he pointed out that the Roman slave was



chained, and the hired worker was tied by invisible threads to his owner. This owner is the capitalist class as a whole.

The basic economic law of capitalism is the law of surplus value. Describing capitalism, Marx wrote: "The production of surplus value or profit is the absolute law of this mode of production."<sup>35</sup> This law defines the essence of capitalist production.

The surplus value created by the unpaid labour of the wage-earners is the common source of the unearned income of the entire bourgeois class. On the basis of the distribution of surplus value, definite relations are formed between the various groups of the bourgeoisie: industrialists, merchants, bankers, as well as between the capitalist class and the landowning class.

The pursuit of surplus value plays a major role in the development of the productive forces under capitalism. None of the previous forms of exploitation, neither slavery nor feudalism, had such a power to stimulate the growth of technology. Under the social order that preceded capitalism, technology developed very slowly. Capital, in its pursuit of surplus value, brought about a radical revolution in the old methods of production, the Industrial Revolution, which gave rise to large-scale machine industry.

Lenin called the doctrine of surplus value the cornerstone of Marx's economic theory. By elucidating the source of the exploitation of the working class, surplus value, Marx gave the working class a spiritual weapon for the overthrow of capitalism. By revealing the essence of capitalist exploitation in his doctrine of surplus value, Marx dealt a mortal blow to bourgeois political economy and its assertions of the harmony of class interests under capitalism.

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<sup>35</sup> K. Marx, *Capital*, vol. I, 1953, p. 624.

## **Capital as a Social Relation of Production. Constant and Variable Capital.**

Bourgeois economists declare as capital every instrument of labour, every means of production, beginning with the stone and stick of primitive man. The purpose of this definition of capital is to obscure the essence of the exploitation of the worker by the capitalist, to present capital as the eternal and unchangeable condition of the existence of all human society.

As a matter of fact, the stone and stick of primitive man served him as instruments of labour, but not as capital. Nor are the tools and raw materials of the artisan, implements, seeds, and draught animals of the peasant who farms on the basis of personal labour. The means of production become capital only at a certain stage of historical development, when they are the private property of the capitalist and serve as a means of exploiting wage labour.

Capital is value, which, through the exploitation of hired labourers, brings surplus value. In Marx's phrase, capital is "dead labour, which, like a vampire, comes to life only when it absorbs living labour and lives all the more fully the more living labour it absorbs."<sup>36</sup> Capital embodies the productive relation between the capitalist class and the working class, in which the capitalists, as owners of the means and conditions of production, exploit the wage workers who create surplus value for them. This relation of production, like all other relations of production in capitalist society, takes the form of a relation of things and appears as a property of the things themselves, the means of production, to yield income to the capitalist.

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<sup>36</sup> K. Marx, *Capital*, vol. I, 1953, p. 238.

This is the *fetishism of capital*: in the capitalist mode of production, the deceptive appearance is created that the means of production (or a certain amount of money with which the means of production can be bought) have in themselves the miraculous ability to provide their owner with a regular unearned income.

Different parts of capital play different roles in the process of production of surplus-value.

The entrepreneur spends a certain part of his capital on the construction of a factory building, on the purchase of equipment and machinery, on the purchase of raw materials, fuel, and auxiliary materials. The value of this part of the capital is transferred to the newly produced commodity in proportion as the means of production are consumed or worn out in the process of labour. The portion of capital which exists in the form of the value of the means of production does not change its magnitude in the process of production, and is therefore called *constant* capital.

The other part of the capital is spent by the entrepreneur on the purchase of labour-power, on the hiring of labourers. In exchange for this part of the capital expended, the entrepreneur obtains at the end of the process of production a new value, which is produced by the workers in his business. This new value, as we have seen, is greater than the value of the labour-power bought by the capitalist. Thus the part of capital expended on the wages of the workers changes in the process of production: it increases as a result of the creation by the workers of the surplus-value appropriated by the capitalist. That part of the capital which is expended in the purchase of labour-power (i.e., in the wages of the labourers) and which increases in the process of production is called *variable* capital.

Marx denotes constant capital with the Latin letter *c*, and variable capital with the letter *v*. The division of capital into constant and variable parts was first established by Marx. By means of this division the special role

of variable capital, which is used for the purchase of labour-power, has been revealed. The exploitation of wage workers by capitalists is the real source of surplus value.

Marx's discovery of the dual character of labour embodied in commodities was the key to distinguishing between constant and variable capital, to uncovering the essence of capitalist exploitation. Marx showed that the labourer, by his labour, simultaneously creates new value and transfers the value of the means of production to the commodity produced. As concrete labour, the labourer's labour transfers to the product the value of the expended means of production, and as abstract labour, as the expenditure of labour-power in general, the labour of the same labourer creates new value. These two aspects of the labour process differ very tangibly. For example, if the productivity of labour in a given industry is doubled, the spinner will transfer twice the value of the means of production to the product during the working day (since he will process twice the mass of cotton), and he will create the same amount of new value as before.

### **The Rate of Surplus Value.**

Capital did not invent surplus labour. Wherever society consists of exploiters and exploited, the ruling class sucks the surplus labour out of the exploited classes. But unlike the slave-holder and the feudal lord, who, under the conditions of the domination of natural economy, turned the overwhelming part of the product of surplus labour of slaves and serfs to the direct satisfaction of their needs and whims, the capitalist converts the entire product of surplus labour of hired workers into money. Part of this money is spent by the capitalist on the purchase of articles of consumption and luxuries, and the other part of the money is put back into use as additional capital which yields new surplus-value. Capital, therefore, shows, as Marx put it, a veritable wolfish greed for

surplus-labour. The degree of exploitation of the worker by the capitalist is expressed in the rate of surplus-value.

*The rate of surplus-value* is the ratio of surplus-value to variable capital, expressed as a percentage. The rate of surplus-value shows the proportion in which the labour expended by the labourers is divided into necessary and surplus-labour, in other words, how much of the working-day the proletarian spends in replacing the value of his labour-power, and how much part of the working-day he labours for nothing for the capitalist. Marx denotes surplus-value with the Latin letter *s*, and the rate of surplus-value with *s'*. In the above case, the rate of surplus-value, expressed as a percentage, is as follows:

$$m' = \frac{6 \text{ dollars}}{6 \text{ dollars}} 100 = 100\%$$

The rate of surplus-value here is 100 per cent. This means that in this case the labourer's labour is equally divided into necessary and surplus-labour. With the development of capitalism, there is an increase in the rate of surplus value, which expresses an increase in the degree of exploitation of the proletariat by the bourgeoisie. The *mass* of surplus-value grows still more rapidly, because the number of wage-labourers exploited by capital increases.

In his article "Workers' Earnings and Capitalists' Profits in Russia", written in 1912, Lenin gave the following calculation showing the degree of exploitation of the proletariat in pre-revolutionary Russia. According to the results of the official survey of factories and plants made in 1908, which undoubtedly gave exaggerated figures on the amount of workers' earnings and understated figures on the amount of capitalists' profits, the workers' wages amounted to 555.7 million rubles, while the capitalists' profits amounted to 568.7

million rubles. The total number of workers of the surveyed enterprises of large-scale factory industry was 2,254 thousand people. Thus, the average wage of a worker was 246 rubles a year, and each worker brought an average profit of 252 rubles a year to the capitalist.

Thus, in tsarist Russia, the worker worked less than half the day for himself, and the greater half of the day for the capitalist.

## **Two Ways to Increase Exploitation. Absolute and Relative Surplus-Value.**

Every capitalist strives in every possible way to increase the share of surplus-labour squeezed out of the worker. The increase in surplus value is achieved in two main ways.

Let us take, for example, a working-day of 12 hours, of which 6 hours are necessary and 6 hours are surplus-labour. Let us draw this working day in the form of a line on which each division is equal to one hour.

**Worker day = 12 hours**

|—|— |—|— |—|— |—|—

**Required work Required work**

**time = 6 o'clock time = 6 o'clock**

|—|— |—|— |—|— |—|— |—|— |—|— |—|— |—|—

The first way of increasing the degree of exploitation of the worker is that the capitalist increases the surplus-value he receives by lengthening the whole working day, say, by 2 hours. In this case, the working day will look like this:

**Worker day = 14 hours**

|—|— |—|— |—|— |—|—

**Required work Required work**

**time = 8 o'clock time = 8 o'clock**

|—|— |—|— |—|— |—|— |—|— |—|— |—|— |—|—

The magnitude of surplus labour-time has increased as a result of *the absolute* lengthening of the working-day as a whole, and the necessary labour-time has remained unchanged. The surplus-value produced by the prolongation of the working-day is called *absolute surplus-value*.

The second way of increasing the degree of exploitation of the worker is that, while the total length of the working day remains the same, the surplus-value received by the capitalist increases as a result of the reduction of the necessary labour-time. An increase in the productivity of labour in the branches which produce the articles of consumption of the workers, as well as the instruments and materials for the production of these articles of consumption, leads to a reduction in the labour time required for their production. As a consequence, the value of the means of subsistence of the workers decreases, and the value of labour-power falls accordingly. Whereas in the past it took six hours to produce the means of subsistence of the worker, now, let us say, only four hours are expended. In this case, the working day will look like this:

**Working day = 12 hours**

|—|— |—|— |—|— |—|—

**Required work Required work**

**time = 4 hours**

**time = 8 o'clock**

|—|— |—|— |—|— |—|— |—|— |—|— |—|— |—|—

The length of the working-day has remained the same, but the magnitude of surplus-labour-time has increased because the *relation* between necessary and surplus-labour-time has changed. The surplus-value resulting from the reduction of the necessary labour-time and the corresponding increase in the surplus-labour-time is called *relative surplus-value*.

The two modes of increasing surplus value play different roles at different stages of the historical development of capitalism. In the manufacturing period, when technique was low and progressing comparatively slowly, the increase in absolute surplus-value was of paramount importance. With the further development of capitalism, in the machine period, when highly developed technology makes it possible to rapidly increase the productivity of labour, the capitalists achieve a tremendous increase in the degree of exploitation of the workers, primarily through the growth of relative surplus value. At the same time, they are still doing their utmost to lengthen the working day, and especially to increase the intensity of work. The intensification of the labour of the workers is of the same importance to the capitalist as the lengthening of the working-day: the lengthening of the working-day from 10 to 11 hours, or the increase of the intensity of labour by one-tenth, gives him the same result.

### **The Working Day and its Boundaries. The Struggle for a Shorter Working Day.**

In the pursuit of a rise in the rate of surplus-value, the capitalists seek to lengthen the working-day to the utmost. *The working day* is the time of day during which the worker is at the disposal of the capitalist in the enterprise. If it were possible, the employer would make his workers work



24 hours a day. However, during a certain part of the day, a person must restore his strength, rest, sleep, and eat. This gives the purely *physical limits* of the working-day. In addition, the working day has *moral limits*, since the worker needs time to satisfy his cultural and social needs.

Capital, with its insatiable greed for surplus labour, does not want to reckon not only with the moral, but also with the purely physical limits of the working day. As Marx put it, capital is merciless in relation to the life and health of the worker. The predatory exploitation of labour power shortens the life expectancy of the proletarian and leads to an extraordinary increase in mortality among the working population.

In the period of the emergence of capitalism, the state power issued special laws in the interests of the bourgeoisie in order to compel wage workers to work as many hours as possible. At that time, technology remained low, the masses of peasants and artisans were able to work independently, and as a result capital did not have a surplus of workers at its disposal. The situation changed with the spread of machine production and the growth of the proletarianisation of the population. There were enough workers at the disposal of capital who, under the threat of starvation, were forced to go into bondage to the capitalists. There is no longer any need for state laws to lengthen the working day. Capital has been enabled, by means of economic compulsion, to prolong the working time to the utmost limits. Under these conditions, the working class began a stubborn struggle for a shorter working day. This struggle was first developed in England.

As a result of a long struggle, the British workers succeeded in promulgating the Factory Act of 1833, which limited the work of children under 13 to 8 hours, and the work of adolescents between 13 and 18 to 12 hours. In 1844, the first law was passed limiting women's work to 12 hours. In most cases, child and female labour were used alongside men's

labour. Therefore, in factories covered by the factory legislation, the 12-hour working day began to be extended to all workers. A law of 1847 limited the work of adolescents and women to 10 hours. These restrictions, however, did not apply to all branches of hired labour. The Act of 1901 limited the working day of adult workers to 12 hours.

As workers' resistance grew, laws to limit the working day began to appear in other capitalist countries. After each such law was passed, the workers had to wage an unremitting struggle to enforce it.

A particularly stubborn struggle for the legal limitation of working hours developed after the working class put forward as its militant call the demand for *an eight-hour working day*. This demand was proclaimed in 1866 by the Workers' Congress in America and by the Congress of the First International on Marx's proposal. The struggle for the eight-hour day became an integral part not only of the economic but also of the political struggle of the proletariat.

In tsarist Russia, the first factory laws appeared at the end of the XIX century. After the well-known strikes of the St. Petersburg proletariat, the law of 1897 limited the working day to 11½ hours. This law was, according to Lenin, a forced concession won by the Russian workers from the tsarist government.

On the eve of the First World War, the 10- to 12-hour working day prevailed in most capitalistically developed countries. In 1919, under the influence of the bourgeoisie's fear of the growth of the revolutionary movement, representatives of a number of capitalist countries concluded an agreement in Washington on the introduction of the eight-hour day on an international scale, but then all the major capitalist states refused to approve this agreement. In the capitalist countries, along with the exhausting intensity of labour, there is a long working day, especially in the armaments industry. In Japan, on the eve of World War II, the law established a 8-hour working day for workers over

the age of 16, but in fact in a number of industries the working day reached 12-15 hours. Excessively long working hours are the lot of the proletariat in the colonial and dependent countries.

### **Excess Surplus-Value.**

A variety of relative surplus-value is surplus-value. It occurs when individual capitalists introduce machinery and methods of production which are more advanced than those employed in the majority of enterprises in the same trade. In this way the individual capitalist achieves in his enterprise a higher productivity of labour than the average level existing in a given branch of production. As a consequence, the individual value of the commodity produced in the enterprise of a given capitalist is lower than the social value of this commodity. In so far as the price of a commodity is determined by its social value, the capitalist obtains a higher rate of surplus-value than the ordinary rate.

Let's take the following example. Suppose that in a tobacco factory a worker produces a Thousand cigarettes an hour and works 12 hours, out of which he creates a value equal to the value of his labour power in 6 hours. If a factory introduces a machine that doubles the productivity of labour, then the worker, still working 12 hours, no longer produces 12 thousand, but 24 thousand cigarettes. The worker's salary is compensated by a part of the newly created value, embodied (minus the value of the transferred part of the constant capital) in 6 thousand cigarettes, that is, in the product of 3 hours. The manufacturer's share remains the other part of the newly created value, embodied (minus the value of the transferred part of the constant capital) in 18 thousand cigarettes, that is, in the product of 9 hours.

In this way, there is a reduction in the necessary working time and a corresponding prolongation of the surplus labour time. The worker no longer replaces the value of his labour-

power in 6 hours, but in 3 hours; His surplus labour increased from 6 hours to 9 hours. The rate of surplus value has tripled.

Excess surplus-value is the surplus of surplus-value beyond the ordinary rate obtained by individual capitalists who, with the help of more advanced machines or methods of production, achieve in their enterprises a higher productivity of labour in comparison with the productivity of labour in most enterprises of the same industry.

The acquisition of surplus value is only a temporary phenomenon in each individual enterprise. Sooner or later, the majority of the entrepreneurs in the same industry introduce new machinery, and those who do not have sufficient capital for this are ruined in the course of competition. As a result, the time socially necessary for the production of a given commodity decreases, the value of the commodity falls, and the capitalist, who was the first to apply technical improvements, ceases to receive surplus value. However, as surplus-value disappears in one enterprise, surplus-value appears in another, where new and still more perfect machinery is introduced.

Every capitalist seeks only his own enrichment. But the final result of the isolated actions of individual entrepreneurs is the growth of technics, the development of the productive forces of capitalist society. At the same time, the pursuit of surplus value induces each capitalist to protect his technical achievements from competitors, and gives rise to trade secrets and technological secrets. Thus it is evident that capitalism sets definite limits for the development of the productive forces.

The development of the productive forces under capitalism takes place in a contradictory form. Capitalists use new machines only when they lead to an increase in surplus value. The introduction of new machinery serves as the basis for an all-round increase in the degree of exploitation of the proletariat, a lengthening of the working day and an increase in the intensity of labour. The progress

of technology is carried out at the cost of incalculable sacrifices and deprivations of many generations of the working class. In this way, capitalism treats the main productive force of society—the working class, the working masses—in the most predatory way.

## **The Class Structure of Capitalist Society. The Bourgeois State.**

Pre-capitalist modes of production were characterised by the division of society into various classes and estates, which created a complex hierarchical structure of society. The bourgeois epoch simplified class antagonisms and replaced the various forms of hereditary privilege and personal dependence with the impersonal power of money and the unlimited despotism of capital. Under the capitalist mode of production, society is more and more split into two great hostile camps, into two opposite classes, the bourgeoisie and the proletariat.

*The bourgeoisie* is the class which owns the means of production and uses them for the exploitation of wage labour.

*The proletariat* is a class of wage-workers deprived of the means of production and consequently compelled to sell their labour-power to the capitalists. On the basis of machine production, capital has completely subjugated wage labour. For the class of wage workers, the proletarian state became a lifelong lot. By virtue of its economic position, the proletariat is the most revolutionary class.

The bourgeoisie and the proletariat are the main classes of capitalist society. As long as the capitalist mode of production exists, these two classes are inseparably linked: the bourgeoisie cannot exist and enrich itself without exploiting the wage workers; The proletarians cannot live

without hiring themselves out to the capitalists. At the same time, the bourgeoisie and the proletariat are antagonistic classes, whose interests are opposite and irreconcilably hostile. The ruling class of capitalist society is the bourgeoisie. The development of capitalism leads to a deepening of the gulf between the exploiting minority and the exploited masses. The class struggle between the proletariat and the bourgeoisie is the driving force of capitalist society.

In all bourgeois countries a considerable part of the population is the peasantry.

*The peasantry* is a class of small producers who run their economy on the basis of private ownership of the means of production with the help of backward technics and manual labour. The bulk of the peasantry is mercilessly exploited by landlords, kulaks, merchants and usurers and is ruined. In the process of stratification, the peasantry is constantly separating from itself, on the one hand, the masses of proletarians and, on the other, the kulaks, the capitalists.

The capitalist state, which replaced the state of the feudal- feudal era as a result of the bourgeois revolution, is in its class essence an instrument of subjugation and oppression of the working class and the peasantry in the hands of the capitalists. The bourgeois State protects capitalist private ownership of the means of production, ensures the exploitation of the working people and suppresses their struggle against the capitalist system.

Since the interests of the capitalist class are sharply opposed to the interests of the overwhelming majority of the population, the bourgeoisie is forced to hide the class character of its state in every possible way. The bourgeoisie tries to present this state in the form of a supposedly supra-class, national state, in the form of a state of 'pure democracy'. But in reality bourgeois 'freedom' is the freedom of capital to exploit the labour of others; bourgeois 'equality' is a deception that conceals the actual inequality

between the exploiter and the exploited, between the well-fed and the hungry, between the owners of the means of production and the mass of proletarians who own only their own labour power.

The bourgeois State suppresses the masses of the people through its administrative apparatus, police, army, courts, prisons, concentration camps, and other means of violence. A necessary complement to these means of violence is the means of ideological influence by which the bourgeoisie maintains its dominance. This includes the bourgeois press, radio, cinema, bourgeois science and art, and the church.

The bourgeois state is the executive committee of the capitalist class. Bourgeois constitutions aim at consolidating a social order that is pleasing and advantageous to the propertied classes. The basis of the capitalist system, private ownership of the means of production, is declared sacred and inviolable by the bourgeois state.

The forms of bourgeois states are very diverse, but their essence is the same: all these states are the *dictatorship of the bourgeoisie*, which strives by all means to preserve and strengthen the system of exploitation of wage labour by capital.

With the growth of large-scale capitalist production, the number of the proletariat increases, which becomes more and more aware of its class interests, develops politically and organizes itself for the struggle against the bourgeoisie.

The proletariat is the working class which is bound up with the advanced form of economy, with large-scale production. "Only the proletariat, by virtue of its economic role in large-scale production, is capable of being the leader of *all* the toiling and exploited masses."<sup>37</sup> The industrial proletariat, which is the most revolutionary and most advanced class of capitalist society, is capable of gathering around itself the toiling masses of the peasantry, all the

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<sup>37</sup> V. I. Lenin, *State and Revolution*, Works, vol. 25, p. 376.

exploited strata of the population, and leading them to storm capitalism.

## **BRIEF CONCLUSIONS**

1. *Under the capitalist system, the basis of the relations of production is capitalist ownership of the means of production, which is used for the exploitation of wage workers. Capitalism is commodity production at the highest stage of its development, when labour-power also becomes a commodity. As a commodity, labour-power under capitalism has a value and a use-value. The value of labour-power is determined by the value of the means of subsistence necessary for the maintenance of the worker and his family. The use-value of a commodity, labour-power, consists in its property of being a source of value and surplus-value.*

2. *Surplus-value is the value created by the labourer's labour over and above the value of his labour-power, and appropriated by the capitalist free of charge. The law of surplus value is the basic economic law of capitalism.*

3. *Capital is the value which yields surplus-value through the exploitation of wage-labourers. Capital embodies the social relation between the capitalist class and the working class. In the process of production of surplus-value, different parts of capital play different roles. Constant capital is that part of capital which is expended on means of production; this part of capital does not create new value, does not change its magnitude. Variable Capital is that part of capital which is expended in the purchase of labour-power; This portion of capital is increased as a result of the capitalist's appropriation of the surplus-value created by the labourer's labour.*

4. *The rate of surplus-value is the ratio of surplus-value to variable capital. It expresses the degree of*



*exploitation of the worker by the capitalist. Capitalists raise the rate of surplus-value in two ways: through the production of absolute surplus-value and through the production of relative surplus-value. Absolute surplus-value is the surplus-value created by the prolongation of the working-day or by the increase in the intensity of labour. Relative surplus-value is the surplus-value created by the reduction of the necessary labour-time and the corresponding increase of the surplus-labour-time.*

*5. The class interests of the bourgeoisie and the proletariat are irreconcilable. The contradiction between the bourgeoisie and the proletariat constitutes the main class contradiction of capitalist society. The organ for the protection of the capitalist system and the suppression of the toiling and exploited majority of society is the bourgeois state, which is the dictatorship of the bourgeoisie.*

## CHAPTER VIII. WAGES

### **The Price of Labour. The Essence of Wages.**

Under the capitalist mode of production, labour-power, like every other commodity, has value. The value of labour-power, expressed in money, is the *price of labour-power*.

The price of labour-power differs from the price of other commodities. When a commodity producer sells, say, linen on the market, the sum of money received for it appears to be nothing more than the price of the commodity sold. When the proletarian sells his labour-power to the capitalist and receives a certain sum of money in the form of wages, this sum of money is not the price of labour-power, but *the price of labour*.

This happens for the following reasons: In the first place, the capitalist pays the labourer his wages after the labourer has expended his labour. Secondly, wages are fixed either according to the amount of time worked (hours, days, weeks) or according to the amount of product produced. Let's take an earlier example. Suppose a worker works 12 hours a day. In the course of 6 hours he produces a value of \$6 equal to the value of his labour-power. In the remaining 6 hours he produces a value of \$6, which is appropriated by the capitalist as surplus-value. Since the employer has hired a proletarian on a full-time basis, he pays him \$12 for all 12 hours of labour. Thus is created the deceptive appearance that wages are the price of labour, that \$6 is the full payment for the whole twelve-hour day. As a matter of fact, \$12 represents only the daily value of labour-power, while the labour of the proletarian has created a value equal to \$12. If, on the other hand, payment is established in the enterprise according to the quantity of the product produced, then there is an appearance that the worker is

paid for the labour expended on each unit of the commodity he produces, that is, again, as if all the labour expended by the worker is paid in full.

This deceptive appearance is not an accidental delusion of people. It is engendered by the very conditions of capitalist production, in which exploitation is concealed and obscured, and the relations between the employer and the wage-worker are presented in a distorted form, as relations of equal commodity owners.

In reality, the wages of the wage-worker are not the value or price of his labour. If we assume that labour is a commodity and has a value, then the magnitude of this value must be measured by something. Obviously, the magnitude of the “value of labour,” as of every commodity, must be measured by the quantity of labour contained in it. This assumption leads to a vicious circle: labour is measured by labour.

Further, if the capitalist paid the worker for the “value of labour”, i.e., paid for the labour in full, then there would be no source of enrichment for the capitalist, in other words, there could be no capitalist mode of production.

Labour is the creator of the value of commodities, but labour itself is not a commodity and has no value. What in everyday life is called the “value of labour” is in reality the value of labour-power.

The capitalist does not buy labour on the market, but a special commodity, labour-power. The consumption of labour-power, i.e., the expenditure of the muscular, nervous, and cerebral energy of the worker, is a labour process. Wages are only part of the working day’s wages. The value of labour-power is always less than the value newly created by the labourer’s labour. But since wages are in form wages, the impression is created that the whole working day is paid in full. That is why Marx calls wages in bourgeois society *the transformed form* of value or the price of labour-power. “Wages are not what they appear to be, not the

value—or price—of labour, but only the disguised form of *the value—or price—of labour-power*. ”<sup>38</sup>

*Wages* are the monetary expression of the value of labour-power, its price, which appears as the price of labour.

In slavery there is no transaction between the slaveholder and the slave. A slave is the property of a slave-owner. Therefore, it seems that all the labour of the slave is given away for nothing, that even that part of the labour that reimburses the cost of maintaining the slave is unpaid labour, labour for the slaveholder. In feudal society, the necessary labour of the peasant on his farm and the surplus labour of the landlord are clearly distinguished in time and space. Under the capitalist system, even the unpaid labour of the wage-labourer appears to be paid labour.

Wages conceal all traces of the division of the working-day into necessary and surplus labour-time, into paid and unpaid labour, and thus disguise the relation of capitalist exploitation.

## Basic Forms of Wages.

The main forms of wages are: 1) time-based and 2) piece-rate wages.

*Time-wages* are a form of wages in which the amount of earnings of the worker depends on the time he has worked - hours, days, weeks, months. In accordance with this, there are: hourly, daily, weekly, monthly.

At the same amount of time-wage, the actual wage of the worker may be different, depending on the length of the working day. The measure of the worker's payment for the

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<sup>38</sup> K. Marx, Critique of the Gotha Program, K. Marx, F. Engels, Selected Works, vol. II, 1948, p. 20.

labour expended by him per unit of time is the price of one working hour. Although, as has been pointed out, labour itself has no value, and consequently no price, the conventional name “price of labour” is adopted to determine the amount of wages paid to the labourer. The unit of measure of the “price of labour” is the wages of labour per hour, or the price of an hour’s labour. Thus, if the average working day lasts 12 hours, and the average daily value of labour-power is \$6, then the average price of a working hour ( $600 \text{ cents} : 12$ ) will be 50 cents.

Time-wage enables the capitalist to intensify the exploitation of the labourer by lengthening the working-day, to lower the price of the labour-hour, while leaving the wages of the day, week, and month unchanged. Suppose that the daily wage remains the same, \$6, but the working day is increased from 12 to 13 hours; In this case, the price of one working hour ( $600 \text{ cents} : 13$ ) will fall from 50 to 46 cents. Under the pressure of the demands of the workers, the capitalist is sometimes compelled to raise his daily (and consequently weekly, monthly) wages, but the price of one hour’s labour may remain unchanged or even fall. Thus, if the day’s wages are raised from \$6 to \$6.20, and the working-day is increased from 12 to 14 hours, the price of an hour’s work will fall ( $620 \text{ cents} : 14$ ) to 44 cents.

An increase in the intensification of labour also means a fall in the price of the labour-hour, for with a greater expenditure of energy, which is equivalent to a lengthening of the working-day, the wages remain the same. As a result of the fall in the price of the working hour, the proletarian is compelled to work more and more intensely in order to exist, or to accept a further lengthening of the working day. The immeasurable intensification of labour, as well as the lengthening of the working day, lead to an increased expenditure of labour-power, to its undermining. The less each hour of labour is paid, the greater the quantity of labour, or the longer the working day, is required in order

that the labourer may be assured of even the most miserable wages. On the other hand, the prolongation of the working time causes in turn a decrease in the wages of the working hour.

The fact that with the lengthening of the working day or with the increase in the intensity of labour, the wages of one hour's labour are reduced, the capitalist takes advantage of. Under conditions favourable for the sale of commodities, it lengthens the working day, introduces *over-the-clock* work, i.e., work in excess of the fixed length of the working day. If, on the other hand, market conditions are unfavourable and the capitalist is forced to temporarily reduce the volume of production, he shortens the working day and introduces *hourly* wages. Hourly wages for part-time or part-time work drastically reduce wages. If, in our example, the workday is reduced from 12 to 6 hours, with the same wage of 50 cents per hour, then the worker's daily earnings will be only \$3, that is, half the daily cost of labour. Consequently, the worker loses pay not only when the working day is excessively lengthened, but also when he is forced to work part-time.

"The capitalist can now extract a certain amount of surplus labour from the labourer without bringing the working time up to the level necessary for the maintenance of the labourer's existence. He can destroy all regularity of labour and, guided solely by his own convenience, whim, and momentary interest, replace periods of monstrous excessive labour with periods of relative or even complete unemployment."<sup>39</sup>

In the case of time-wages, the amount of earnings of the worker is not directly related to the degree of intensity of his labour: with the increase in the intensity of labour, the time-wages do not rise, and the price of the working hour actually falls. In order to intensify exploitation, the capitalist maintains special overseers who ensure that the workers

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<sup>39</sup> K. Marx, *Capital*, vol. I, 1953, p. 548.

observe the capitalist discipline of labour and that it is further intensified.

Time-wages were prevalent in the early stages of the development of capitalism, when the employer, without yet encountering any organised resistance from the workers, was able to increase surplus-value by lengthening the working day. However, time-wages persist even in the higher stage of capitalism. In a number of cases it presents considerable convenience to the capitalist: by accelerating the movement of machinery, the capitalist forces the workers to work more and more intensively, without raising wages.

Piece-by-piece (piecework) wages are a form of wages in which the amount of earnings of a worker depends on the number of products, individual parts, or on the number of operations performed per unit of time. In the case of time - based payment, the labour expended by a worker is measured by its duration, while in the case of piece-by-piece payment, it is measured by the number of items produced (or operations performed), each of which is paid at certain prices.

In fixing prices, the capitalist takes into account, firstly, the daily time-wages of the labourer, and secondly, the quantity of articles or parts which the labourer produces in the course of the day, the rate usually being taken as the labourer's highest output. If the average daily wage in a given branch of industry is \$6, and the quantity of goods of a certain kind produced by a worker is 60 pieces, then the piece rate for the article or part will be 10 cents. The unit rate is fixed by the capitalist in such a way that the hourly (daily, weekly) earnings of the worker are not higher than in the case of time-wages. Thus, piece-rate pay is basically a modified form of time-based payment.

Piece-rate wages, even more than time-wages, give rise to the deceptive appearance that the labourer sells labour-

power but labour to the capitalist, and receives full wages according to the quantity produced.

Capitalist piecework leads to a constant increase in the intensity of labour. At the same time, it makes it easier for the entrepreneur to supervise workers. The degree of intensity of labour is controlled here by the quantity and quality of the product that the worker must produce in order to acquire the necessary means of subsistence. The worker is forced to increase piece-by-piece output, to work harder and harder. But as soon as a more or less significant part of the workers reaches a new, increased level of labour intensity, the capitalist reduces the unit rates. If, in our example, the unit price is reduced by, say, 2 times, the worker is forced to work for two people in order to maintain the previous earnings, that is, he is forced to increase the working time or even more to increase the intensity of labour, so that during the day he can produce not 60, but 120 parts. 'The worker tries to defend the total amount of his wages by working more: he works more hours or produces more in one hour... The result is that the more he works, the less pay he receives.'<sup>40</sup> This is the most important feature of piece-work wages under capitalism.

Time-based and piece-wage forms are often used simultaneously in the same enterprises. Under capitalism, these two forms of wages are only different ways of intensifying the exploitation of the working class.

Capitalist piece-work is the basis of the sweatshop wage systems used in bourgeois countries.

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<sup>40</sup> K. Marx, *Wage Labour and Capital*, K. Marx, F. Engels, *Selected Works*, vol. I, 1948, p. 76.



## Sweatshop Wage Systems.

The most important feature of capitalist piece-work is the immeasurable intensification of labour, which exhausts all the forces of the worker. At the same time, wages do not compensate for the increased expenditure of labour. Beyond a certain duration of labour and its intensity, no additional compensation can prevent the direct destruction of labour-power.

As a result of the use of exhausting methods of labour organisation in capitalist enterprises, usually by the end of the working day the muscular and nervous forces of the worker are overstrained, which leads to a drop in labour productivity. In the pursuit of an increase in surplus value, the capitalist has recourse to various *sweatshop systems of wages* in order to achieve a high intensity of labour throughout the working day. The so-called “scientific organisation of labour” serves the same purpose under capitalism. The most common forms of such labour organisation with the use of wage systems that are extremely exhausting for the worker are *Taylorism* and *Fordism*, which are based on the principle of maximizing the intensity of labour.

The essence of Taylorism (a system named after its author, the American engineer F. Taylor) is as follows. The strongest and most dexterous workers are selected at the enterprise. They are forced to work with maximum tension. The execution of each individual operation is recorded in seconds and fractions of a second. On the basis of the timing data, the production regime and time norms for the entire mass of workers are established. In case of exceeding the norm - the “lesson” - the worker receives a small increase in the daily wage - a bonus; If the quota is not met, the worker is paid at a greatly reduced rate. The capitalist organisation of labour, according to Taylor’s system, exhausts all the forces of

the worker, transforms him into an automaton, mechanically performing the same movements.

V. I. Lenin cites a concrete example (the work of loading pig iron on a cart) when, with the introduction of the Taylor system, the capitalist was able to reduce the number of workers from 500 to 140 people, i.e., by a factor of 3.6, by just one operation. Due to a monstrous increase in the intensity of labour, the daily workload rate increased from 16 to 59 tons, i.e., 3.7 times; When a worker performs work for 1 day, which he used to perform in 3-4 days, his daily earnings nominally increased (and then only for the first time) by only 63% /o. In other words, with the introduction of such a system of payment, the daily earnings of the worker, in fact, in comparison with labour costs, decreased by 2.3 times. "As a result," Lenin wrote, "in the same 9 to 10 hours of work, three times as much labour is squeezed out of the worker, all his strength is ruthlessly exhausted, every drop of nervous and muscular energy of the wage slave is sucked out at triple speed. Will he die sooner? "There are a lot of others behind the gate.." <sup>41</sup>

Lenin called this organisation of labour and wages a "scientific" system of squeezing out sweat.

The system of labour and wage organisation introduced by the American "automobile king" H. Ford and many other capitalists (the Fordist system) pursues the same goal: to squeeze the greatest amount of surplus value out of the worker on the basis of maximizing the intensity of labour. This is achieved by accelerating the pace of conveyors and introducing sweatshop wage systems. The monosyllabic labour operations of the worker on the Ford assembly lines make it possible to widely use the labour of unskilled workers and set low rates for them. The enormous intensification of labour is not accompanied by an increase in wages or a shortening of the working day. As a result, the worker quickly wears out, becomes disabled, is dismissed from the enterprise for unsuitability, and falls into the ranks of the unemployed.

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<sup>41</sup> V. I. Lenin, 'Scientific' system of squeezing sweat. Works, vol. 18, p. 556.

The intensification of the exploitation of workers is also achieved by other systems of labour and wage organisation, which are varieties of Taylorism and Fordism. These include, for example, the *Ganges system* (USA). In contrast to Taylor's piece-rate system, the Gantt system is time-bonus. The worker is given a certain "lesson" and a very low guaranteed pay per unit of time worked is set, regardless of the work of the norm. Upon completion of the "lesson", the worker is paid a small bonus to the guaranteed minimum—a "bonus". The *Halsey* (USA) system is based on the principle of bonus pay for "saved" time in addition to the "average wage" per hour of work. Under this system, for example, when the intensity of work is doubled, for each hour of "saved" time, a "bonus" of about 7 times the hourly wage is paid. For this reason, the more intensive the work, the more the wages of the worker fall in proportion to the labour expended by him. The system of *Rowan* (England) is based on the same principles.

One of the ways of increasing surplus value based on deceiving workers is the so-called "*profit-sharing*." Under the pretext of the worker's interest in increasing the profitability of the enterprise, the capitalist reduces the basic earnings of the workers and thereby forms a fund for the "distribution of profits among the workers." Then, at the end of the year, under the guise of "profit," the worker is actually given a part of the wages previously withheld from his earnings. In the long run, the worker who "shares in the profits" is actually paid less than the normal wage. For the same purpose, it is common practice to place among the working shares of this enterprise.

The contrivances of the capitalists under all systems of payment are aimed at squeezing as much surplus-value as possible out of the worker. The employers use all sorts of means to poison the consciousness of the workers with their imaginary interest in increasing the intensity of labour, in reducing the cost of wages per unit of production, in increasing the profitability of the enterprise. In this way the capitalists seek to weaken the resistance of the proletariat to the advance of capital, to obtain the refusal of the workers

to join the trade unions, to take part in strikes, and to bring about a split in the working-class movement.

With all the variety of forms of capitalist piece-work, its essence remains unchanged: with an increase in the intensity of labour and its productivity, the wages of the worker actually decrease, while the capitalist's income increases.

## Nominal and Real Wages.

In the early stages of the development of capitalism, wage workers were paid in *kind*: the worker received shelter, meagre food, and a little money.

To a certain extent, payment in kind persists even in the machine period of capitalism. It was practiced, for example, in the mining and textile industries of pre-revolutionary Russia. Payment in kind is widespread in capitalist agriculture, with the use of farm labourers, in certain branches of industry in capitalist countries, and in colonial and dependent countries. The forms of payment in kind to an employee are different.

The capitalists put the workers in a position where they are forced to borrow products from the factory shop, to use the housing in the mine or on the plantation under conditions that are difficult for the workers set by the employer, etc. In paying in kind, the capitalist exploits the wage-worker not only as a seller of labour-power, but also as a consumer.

The developed capitalist mode of production is characterised *by money-wages*.

A distinction should be made between nominal and real wages.

*Nominal wages* are wages expressed in terms of money; It is the amount of money that the worker receives for the labour power sold to the capitalist.

Nominal wages alone do not give an idea of the actual level of wages of the worker. For example, nominal wages

may remain unchanged, but if at the same time the prices of commodities and taxes rise, the worker's actual wages will fall. Nominal wages may even rise, but if the cost of living rises more over the same period of time than nominal wages have risen, actual wages will fall.

*Real wages are wages* expressed in terms of the means of subsistence of the worker; It shows how many and what kind of commodities and services the worker can buy with his money wages. In order to determine the real wage of a worker, it is necessary to take into account the amount of nominal wages, the level of prices for consumer goods, the height of rents, the severity of taxes paid by the worker, the length of the working day, the degree of intensity of labour, the existence of unpaid days with a shortened working week, the number of unemployed and semi-unemployed who are maintained at the expense of the working class.

Wages under capitalism, because of their low level, the systematic rise in the cost of living, and the growth of unemployment, do not provide the majority of workers with even a subsistence minimum.

The rise in the cost of living and the consequent fall in real wages are primarily due to the systematic *rise in the prices* of consumer goods. For example, in France, as a result of inflation, retail prices for foodstuffs in 1938 were more than 7 times higher than in 1914.

A significant part of the *worker's* wages is absorbed by rents. In Germany, between 1900 and 1930, rents rose by an average of 69 per cent. According to the International Bureau of Labour Statistics, in the 30s, workers spent 25 per cent of the family budget on rent, heating, and lighting in the United States, 20 per cent in England, and 27 per cent in Canada. In tsarist Russia, workers' housing costs amounted to one-third of their earnings.

A major deduction from wages *is taxes* on workers. In the principal capitalist countries in the post-war years, direct

and indirect taxes absorb no less than  $\frac{1}{3}$  wages of a working family.

In capitalist society, wages are not a stable and secure source of subsistence for the worker and his family. The price of labour-power, like that of any other commodity, is subject to constant fluctuations in the elements of the market. Periods of employment of the worker in production are replaced by periods of his total or partial unemployment, when the worker is either completely deprived of wages or their level is sharply reduced.

In determining the average level of wages, bourgeois statistics deliberately distort reality: they classify as wages the incomes of the leading stratum of the industrial and financial bureaucracy (factory managers, bank directors, etc.), include in the calculations only the wages of skilled workers, and exclude from the calculations the wages of a large stratum of low-paid unskilled workers, the agricultural proletariat, and ignores the existence of the existence of the A huge army of unemployed and semi-unemployed, the rise in the prices of consumer goods and the rise in taxes, resorts to other methods of falsification in order to embellish the actual position of the working class under capitalism.

In 1938, bourgeois economists in the United States, applying extremely meagre standards, calculated the subsistence minimum for a working family of four people in the United States at \$4,2 a year. In 177, however, the average annual wage per industrial worker in the United States was \$1938,1, a little more than half of this low subsistence level, and \$176 if the unemployed are counted, or only one-third of that subsistence minimum. In 740 the very limited subsistence level of the average working-class family in England was fixed by bourgeois economists at 1937 shillings a week. According to official figures, 55 per cent of the workers in the coal industry, 80 per cent of the workers in the mining industry (excluding the coal industry), and 75 per cent of the workers in the public utilities in England earned less than this subsistence level.

## Falling Real Wages Under Capitalism.

Based on the analysis of the capitalist mode of production, Marx established the following basic regularity in relation to wages. “The general tendency of capitalist production does not lead to an increase in the average level of wages, but to a decrease in them.”<sup>42</sup>

As has already been said, the real wages of the working family, and consequently of the whole mass of workers, are falling as a result of the rise in the high cost of living for consumer goods, the increase in the tax burden, and the rise in rents. At the same time, the general level of real wages of the working class as a whole is declining under the influence of the capitalist labour market.

Wages, as the price of labour-power, like the price of every commodity, are determined by the law of value. The prices of commodities in the capitalist economy fluctuate up and down around value under the influence of supply and demand. But unlike the prices of other commodities, the price of labour-power *tends to deviate downwards* from its value. This downward deviation of wages from their value, and the consequent fall in real wages, is due primarily to *the existence of unemployment*. The capitalist strives to buy labour-power as cheaply as possible. In case of unemployment, the supply of labour exceeds the demand for it. The commodity labour-power differs from other commodities in that the proletarian cannot postpone its sale. In order not to die of hunger, he is forced to sell his labour-power on the terms offered to him by the capitalist. The presence of unemployment increases competition among workers. Taking advantage of this, the capitalist pays the worker wages below the value of labour-power. Thus, the

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<sup>42</sup> K. Marx, Wages, price and profit, K. Marx, F. Engels, Selected Works, vol. I, 1948, p. 406.

miserable situation of the unemployed, who are part of the working class, affects the material situation of the workers engaged in production and reduces the level of their wages.

Further, the use of machine technics opens up wide possibilities for the capitalists to substitute female and *child* labour for *men's* labour in production. The value of labour-power is determined by the value of the means of subsistence necessary for the worker and his family. Therefore, when the wife and children of the worker are involved in production, wages are reduced, and now the whole family receives about the same amount as before only the head of the family received. In this way, the exploitation of the working class as a whole is further intensified. In capitalist countries, women workers receive significantly lower wages when they perform the same work as men.

Capital squeezes out surplus value through the unrestrained exploitation of child labour. The wages of children and adolescents in all capitalist and colonial countries are several times lower than the wages of adult workers.

The average wage of a female worker in the USA, England, and Italy is 50 per cent lower, in France by 40 to 50 per cent, and in Japan, India, and Indo-China by 50 to 75 per cent than the average wage of a male worker.

In the United States of America, it is estimated that more than 3.3 million wage earners are children and adolescents. A special survey by the Federal Department of Labour on Child Labour in 28 states found that 66 per cent of the children and adolescents surveyed were under the age of 13 and 34 per cent between the ages of 13 and 15. In starch factories, canneries, meat factories, laundries and dress-cleaning factories, children work 12 to 13 hours a day.

In Japan, it is common to sell children to work in factories. Child labour was widely used in Tsarist Russia. A considerable part of the workers in textile and some other enterprises in Russia were children aged 8-10 years.



The exploitation of child labour by capital takes particularly cruel forms in colonial and dependent countries. In textile and tobacco factories in Turkey, children from 7 to 14 years old work full-time on an equal basis with adults. In India's cotton industry, children make up 20 to 25 per cent of all workers.

The low wages of women workers and the exploitation of child labour entail a huge increase in diseases and infant mortality, and have a detrimental effect on the upbringing and education of the younger generation.

The fall in the real wages of the workers is also due to the fact that with the development of capitalism the position of a large part of *the skilled workers* is deteriorating. As already mentioned, the cost of labour includes the cost of training the worker. A skilled worker creates more value, including surplus value, per unit of time than an untrained worker. The capitalist is compelled to pay more for skilled labour than for labourers. But with the development of capitalism, with the growth of industrial technics, on the one hand, there is a demand for highly skilled workers capable of operating complex mechanisms, and on the other hand, many labour operations are simplified, and the labour of a significant part of skilled workers becomes superfluous. Large sections of trained workers lose their qualifications, are pushed out of production, and are forced to take up unskilled labour that is paid much less.

At the same time, by lowering the wages of the bulk of the workers and plundering the colonies, the bourgeoisie creates privileged conditions for a comparatively small stratum of the *working aristocracy*. They are all sorts of foremen, overseers, representatives of the trade union and co-operative bureaucracy. The bourgeoisie is using the highly paid labour aristocracy to split the working-class movement and to poison the consciousness of the bulk of the proletarians by preaching class peace and the unity of interests between the exploiters and the exploited.

The fall in the real wages of the workers is also due to the extremely low wages of the *agricultural proletariat*. A large army of surplus labour in the countryside exerts constant pressure on the level of wages of employed workers in the direction of its reduction.

For example, between 1910 and 1939, the average monthly wage of an agricultural worker in the United States fluctuated between 28 and 47 per cent of the wages of an industrial worker. The situation of agricultural workers in tsarist Russia was extremely difficult. With a 16- to 17-hour working day, the average daily wage of a seasonal agricultural worker in Russia in 1901-1910 was 69 kopecks, and the meagre earnings received during the period of field work had to be used for the rest of the months of complete or partial unemployment.

A common way to reduce wages is through a system of fines. In a capitalist enterprise, the worker is fined for all sorts of reasons: for “faulty work,” for “disturbing the order,” for talking, for taking part in a demonstration, etc. In tsarist Russia, before the law on fines was passed (1886), which somewhat limited the arbitrariness of the factory owners, deductions from wages in the form of *fines* amounted in some cases to half a month’s wages. Fines serve not only as a means of strengthening the capitalist discipline of labour, but also as one of the sources of enrichment for the capitalist.

Thus, with the development of the capitalist mode of production, there is a fall in the real wages of the working class.

In 1924, the real wages of German workers compared with the level of 1900 were 75%, and in 1935 - 66%. In the United States of America, from 1900 to 1938, the average nominal wage of workers (including the unemployed) increased by 68%; during the same period, the cost of living (cost of living) increased 2.3 times, and as a result, the real wage of workers

fell in 1938 relative to the level of 1900 to 74%. In France, Italy, and Japan, not to mention the colonial and dependent countries, the drop in real wages in the nineteenth and twentieth centuries was significantly greater than in the United States of America. In tsarist Russia, in 1913, the real wages of industrial workers fell to 90% of the 1900 level.

The cost of labour varies from country to country. The conditions that determine the cost of labour in each country are changing. Hence *the national differences* in wages. Marx wrote that in comparing wages in different countries, it is necessary to take into account all the factors that determine changes in the value of labour power: the historical conditions for the formation of the working class and the prevailing level of its needs, the costs of training the worker, the role of female and child labour, the productivity of labour, the intensity of labour, the prices of consumer goods, and so on.

Wages are particularly low in colonial and dependent countries. In its policy of enslavement and systematic plunder of the colonial and dependent countries, capital makes use of a large surplus of labour in these countries and pays labour-power far below its value. At the same time, the nationality of the worker is taken into account. For example, whites and Negroes who do the same work are paid differently. In South Africa, the average wage of a Negro worker is 10 times lower than the average wage of an English worker. In the United States of America, the wages of Negroes in the cities are 2.5 times, and in agriculture they are almost 3 times lower than the same labour of whites.

## The Struggle of the Working Class for Higher Wages.

In every country a certain level of wages is fixed on the basis of the law of value, as a result of the fierce class struggle between the proletariat and the bourgeoisie.

The deviation of wages from the value of labour power has its limits.

The minimum wage limit under capitalism is determined by purely physical conditions: the worker must have such an amount of means of subsistence as is absolutely necessary for his life and the reproduction of labour power. "If the price of labour power falls to this minimum, then it falls below the value, since under such conditions labour power can only be maintained and manifested in a declining form."<sup>43</sup> When wages fall below this limit, there is an accelerated process of direct physical destruction of labour power, the extinction of the working population. This is reflected in a reduction in the average life expectancy, a decrease in the birth rate, and an increase in the death rate among the working population, both in the capitalistically developed and especially in the colonial countries.

*The maximum* limit of wages under capitalism is the value of labour-power. The degree to which the average level of wages approaches this limit is determined by the correlation of the class forces of the proletariat and the bourgeoisie.

In the pursuit of an increase in profits, the bourgeoisie seeks to reduce wages below the physical minimum. The working class is fighting against wage cuts, for wage increases, for the establishment of a guaranteed minimum wage, for the introduction of social insurance, for the reduction of the working day. In this struggle, the working

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<sup>43</sup> K. Marx, *Capital*, vol. I, 1953, p. 179.

class is confronted by the capitalist class as a whole and the bourgeois state.

The stubborn struggle of the working class for higher wages began with the emergence of industrial capitalism. First of all, it developed in England, and then in other capitalist and colonial countries.

As the proletariat is formed as a class, the workers unite in *trade unions* for the successful conduct of the economic struggle. As a result, the entrepreneur is no longer confronted by the individual proletarian, but by the whole organisation. With the development of the class struggle, international trade union associations were formed along with local and national trade union organisations. The trade unions serve as *a school of class struggle* for the broad masses of workers.

The capitalists, for their part, unite in employers' unions. They bribe the corrupt leaders of the reactionary trade unions, organise strike-breakers, split the workers' organisations, and use the police, the army, the courts and the prisons to suppress the labour movement.

One of the most effective means of workers' struggle for higher wages, shorter working hours, and better working conditions under capitalism is the *strike*. To the extent that the class contradictions are sharpened and the organisation of the proletarian movement in the capitalist and colonial countries intensifies, many millions of workers are drawn into the strike struggle. When the workers show determination and tenacity in the struggle against capital, economic strikes force the capitalists to accept the conditions of the strikers.

It is only as a result of the unremitting struggle of the working class for its vital interests that the bourgeois states are compelled to enact laws on minimum wages, on the reduction of the working day, and on the limitation of child labour. The economic struggle of the proletariat is of great importance: with correct, class-based leadership, the trade unions can successfully resist the employers. But the

economic struggle of the working class cannot abolish the laws of capitalism and free the workers from exploitation and deprivation.

While recognizing the importance of the economic struggle of the working class against the bourgeoisie, Marxism-Leninism teaches that this struggle is directed only against the consequences of capitalism and not against the root cause of the oppressed condition and poverty of the proletariat. This root cause is the capitalist mode of production itself.

Only through revolutionary political struggle can the working class abolish the system of wage slavery, the source of its economic and political oppression.

## BRIEF CONCLUSIONS

1. In capitalist society, wages are the monetary expression of the value of labour-power, its price, which appears as the price of labour. *Wages disguise the relation of capitalist exploitation, giving rise to the deceptive appearance that all the labour of the labourer is paid, whereas in reality wages are only the price of his labour-power.*

2. *The main forms of wages are temporary and piecework. In the case of time-based wages, the amount of earnings of the worker depends on the time he has worked. In the case of piece-rate wages, the amount of earnings of the worker is determined by the number of products produced by him. In order to increase surplus value, the capitalists employ various sweatshop wage systems, which lead to an enormous increase in the intensity of labour and to an accelerated wear and tear of labour power.*

3. *In contrast to the prices of other commodities, the price of labour-power, as a rule, deviates downwards from its value. By the widespread use of female and child labour,*

*and by the extremely low wages of agricultural workers, as well as of workers in colonial and dependent countries, capital intensifies the exploitation of the working class.*

*4. Nominal wages are the sum of money received by the worker for the labour-power sold to the capitalist. Real wages are wages expressed in terms of the means of subsistence of the worker; It shows how much subsistence and services a worker can buy with his money wages. With the development of capitalism, real wages fall.*

*5. The working class, uniting in trade unions, is waging a struggle for a shorter working day and higher wages. The economic struggle of the proletariat against capital cannot in itself liberate it from exploitation. Only with the abolition of the capitalist mode of production through revolutionary political struggle can the conditions for the economic and political oppression of the working class be eliminated.*

## CHAPTER IX. THE ACCUMULATION OF CAPITAL AND THE IMPOVERISHMENT OF THE PROLETARIAT

### Production and Reproduction.

In order to live and develop, society must produce material goods. It cannot stop producing, just as it cannot stop consuming.

Day after day, year after year, people consume bread, meat, and other articles of food, wear out their clothes and shoes, but at the same time new masses of bread, meat, clothing, shoes, and other products are produced by human labour. Coal is burned in furnaces and furnaces, but at the same time more and more masses of coal are extracted from the bowels of the earth. Machine tools are gradually wearing out, steam locomotives sooner or later fall into disrepair, but new machines are being built at enterprises, new steam locomotives are being manufactured. Under any system of social relations, the process of production must be constantly renewed.

This constant renewal, this continuous repetition of the process of production, is *reproduction*. "Every process of social production, considered in a constant connection and in a continuous stream of its renewal, is at the same time a process of reproduction."<sup>44</sup> As the conditions of production are, so are the conditions of reproduction. If production has a capitalist form, then reproduction has the same form.

The process of reproduction consists not only in the fact that people produce new masses of products in place of and

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<sup>44</sup> K. Marx, *Capital*, vol. I, 1953, p. 570.



in addition to those consumed, but also in the fact that the corresponding relations of production are constantly renewed in society.

It is necessary to distinguish between two types of reproduction: simple and extended.

*Simple reproduction* is a repetition of the process of production on the same scale, in which the newly produced products merely replace the expended means of production and articles of personal consumption.

*Expanded reproduction* is a repetition of the process of production on an increased scale, when society not only replaces the material goods consumed, but also produces additional means of production and articles of personal consumption.

Before the advent of capitalism, the productive forces developed very slowly. The volume of social production changed little from year to year, from decade to decade. Under capitalism, the former sedentary, stagnant state of social production gave way to a much more rapid development of the productive forces. The capitalist mode of production is characterised by expanded reproduction, interrupted by periods of crisis when production falls.

## **Capitalist Simple Reproduction.**

In capitalist simple reproduction, the process of production is renewed in the same volume, and the surplus-value is wholly spent on the personal consumption of the capitalist.

The very consideration of simple reproduction makes it possible to reveal more deeply some of the essential features of capitalism.

In the process of capitalist reproduction, not only the products of labour, but also the relations of capitalist

exploitation are continuously renewed. On the one hand, in the course of reproduction, wealth is constantly created, which belongs to the capitalist and which he uses for the appropriation of surplus value. At the end of each production process, the entrepreneur is again and again the owner of the capital which enables him to enrich himself by exploiting the workers. On the other hand, the worker is constantly leaving the process of production as a propertyless proletarian and is therefore compelled to sell his labour-power to the capitalist again and again in order not to die of hunger. The reproduction of wage-labour-power always remains a necessary condition for the reproduction of capital.

“The capitalist process of production reproduces in its very course the separation of labour-power from the conditions of labour. In so doing, he reproduces and perpetuates the conditions of exploitation of the worker. It constantly compels the worker to sell his labour-power in order to live, and constantly enables the capitalist to buy it in order to enrich himself.”<sup>45</sup>

Thus, in the process of production, the basic capitalist relation is constantly renewed: the capitalist on one side, the wage-worker on the other. The worker, even before he sells his labour-power to this or that employer, already belongs to the total capitalist, i.e., to the capitalist class as a whole. When the proletarian changes his place of work, he changes only one exploiter for another. The worker is chained to the chariot of capital for life.

If we consider the individual process of production, it would seem at first sight that in buying labour-power the capitalist lends money to the labourer from his own fund, since by the time the wages are paid the capitalist may not have had time to sell the commodities produced by the labourer in a given period (e.g., a month). But if we take the purchase and sale of labour-power not in isolation, but as a

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<sup>45</sup> K. Marx, *Capital*, vol. I, 1953, p. 582.

moment of reproduction, as a constantly recurring relation, then the true character of this transaction is revealed.

In the first place, while the labour of the labourer in a given period creates new value containing surplus-value, the product produced by the labourer in the previous period is realised on the market, converted into money. From this it is clear that the capitalist does not pay wages to the proletarian out of his own fund, but out of the value created by the labour of the workers in the preceding period of production (e.g., during the preceding month). As Marx put it, the capitalist class acts according to the old recipe of the conqueror: it buys the goods of the vanquished with their own money, the money they have plundered.

Secondly, unlike other commodities, labour-power is paid by the capitalist only after the labourer has done a certain amount of work. Thus it appears that it is not the capitalist who lends to the proletarian, but, on the contrary, the *proletarian who lends to the capitalist*. For this reason, the employers strive to pay wages as rarely as possible (e.g., once a month), extending the time for which they receive a gratuitous loan from the workers.

In the form of wages, the capitalist class constantly gives money to the workers for the purchase of the means of subsistence, i.e., a certain part of the product created by the labour of the workers and appropriated by the exploiters. The workers just as regularly give this money back to the capitalists, using it to buy the means of subsistence produced by the working class itself.

An examination of capitalist relations in the course of reproduction reveals not only the real source of wages, but also the real source of all capital.

Let us suppose that a capital of £100,10 advanced by the employer yields an annual surplus-value of £10,100, and that the whole of this sum is expended by the capitalist for personal consumption. If the employer did not appropriate the unpaid labour of the labourer, his capital would be

completely consumed after ten years. This is not the case because the sum of £<>, <> expended by the capitalist for personal consumption during this period is completely renewed by the surplus-value created by the unpaid labour of the workers.

Hence, whatever may be the original source of capital, in the course of simple reproduction, this capital becomes, after a certain period of time, a value created by the labour of the workers and *appropriated by the capitalist free of charge*. Thus the absurdity of the assertions of the bourgeois economists that capital is wealth earned by the entrepreneur's own labour is exposed.

Simple reproduction is a component or moment of extended reproduction. The relations of exploitation inherent in simple reproduction are further deepened under the conditions of capitalist expanded reproduction.

### **Capitalist Expanded Reproduction. Capital Accumulation.**

In expanded reproduction, a part of the surplus value is used by the capitalist to increase the scale of production: to buy additional means of production and to hire additional workers. Consequently, a portion of the surplus-value is added to the former capital, i.e., accumulated.

*The accumulation* of capital is the addition of a part of the surplus-value to the capital, or the transformation of a part of the surplus-value into capital. Thus, the source of accumulation is surplus value. Through the exploitation of the working class, capital increases, and at the same time, capitalist relations of production are reproduced on an expanded basis.

The motive of accumulation for the capitalist entrepreneur is above all the *pursuit of an increase in surplus value*. Under the capitalist mode of production, the thirst for enrichment

knows no bounds. It is in the pursuit of surplus value that the capitalist expands production, which enables him to exploit a greater number of workers. With the expansion of production, the mass of surplus-value appropriated by the capitalist increases, and consequently the part of it which is used to satisfy the personal needs and whims of the capitalists, i.e., is spent unproductively.

Another driving force for capital accumulation is fierce *competition*, in which the big capitalists are better off and beat the small ones. Competition compels every capitalist, under the threat of death, to improve his technique and expand production. To arrest the growth of technology, the expansion of production, means to lag behind, and the backward are defeated by competitors. Thus competition compels each capitalist to increase his capital, and he can increase his capital only by means of a constant accumulation of a portion of the surplus-value.

The accumulation of capital is the source of expanded reproduction.

## **Organic Composition of Capital. Concentration and Centralisation of Capital.**

In the course of capitalist accumulation, the total mass of capital increases, and the different parts of it change in different ways.

In accumulating surplus-value and expanding his enterprise, the capitalist usually introduces technical improvements, because they promise him the possibility of increasing the exploitation of the workers and thus of increasing profits. The development of technics means a more rapid growth of that part of capital which exists in the form of machinery, buildings, raw materials, i.e., constant capital. On the other hand, that part of the capital which is expended in

the purchase of labour-power, i.e., variable capital, grows much more slowly.

The relation between constant and variable capital, so far as it is determined by the relation between the mass of the means of production and the living labour-power, is called the organic structure of capital. Take, for example, a capital of 100 thousand pounds sterling. Let's assume that 80 thousand of this amount is spent on buildings, machinery, raw materials, etc., and 20 thousand is spent on wages. Then the organic structure of capital is 80 c: 20 v, or 4: 1.

In different branches of industry and in different enterprises of the same industry, the organic composition of capital is not the same: it is higher where there are more complex and costly machines for each worker, more raw materials processed; It is lower where living labour predominates, and there are fewer machinery and raw materials per worker, and they are comparatively inexpensive.

With the accumulation of capital, the organic composition of capital *increases*: the share of variable capital decreases, and the share of constant capital increases. Thus, in the industry of the United States of America, the organic composition of capital was 1889.4 to 4 in 1, 1904.5 to 7 in 1, and 1929.6 to 1 in 1.

In the course of capitalist reproduction, the size of individual capitals increases. This is done through the concentration and centralisation of capital.

*Concentration* of capital is the growth of capital as a result of the accumulation of surplus value obtained in a given enterprise. The capitalist, by investing in the enterprise a part of the surplus-value appropriated by him, becomes the owner of more and more capital.

*Centralisation* of capital is the growth of the size of capital as a result of the pooling of several capitals into one, larger capital. In the competitive struggle, big capital ruins and absorbs smaller, smaller capitalist enterprises that cannot withstand rivalry. By buying up the enterprises of a ruined competitor for a pittance, or by annexing them to his business

in some other way (e.g., for debts), the big manufacturer increases the amount of capital which is in his hands. The pooling of many capitals into one also takes place in the organisation of private limited partnerships, joint-stock companies, etc.

The concentration and centralisation of capital means the concentration of gigantic wealth in the hands of a few. The enlargement of capital opens up wide possibilities for the concentration of production, i.e., for the concentration of production in large enterprises.

Large-scale production has decisive advantages over small-scale production. Large enterprises can introduce machinery and technical improvements, and apply a wide division and specialisation of labour that is not available to small enterprises. As a result, the production of the product is cheaper for large enterprises than for small ones. Competition is associated with high costs and losses. A large enterprise can sustain these losses and then more than compensate for them, while small and often medium-sized enterprises go bankrupt. The big capitalists obtain money loans incomparably more easily and on more favourable terms, and credit is one of the most important weapons in the competitive struggle. By virtue of all these advantages, in the capitalist countries ever larger enterprises equipped with powerful machinery are coming to the fore, while many small and medium-sized enterprises are ruined and perishing. As a result of the concentration and centralisation of capital, a few capitalists, the owners of vast fortunes, become the arbiters of the destinies of tens and hundreds of thousands of workers.

In agriculture, capitalist concentration leads to the fact that land and other means of production are increasingly concentrated in the hands of large proprietors, and broad strata of small and medium peasants, deprived of land, draught and implements, fall into enslaving dependence on capital. The masses of peasants and artisans are ruined and turned into proletarians.

The concentration and centralisation of capital thus lead to the *sharpening of class contradictions*, to the deepening of the abyss between the bourgeois, exploiting minority and the propertyless, exploited majority of society. At the same time, the concentration of production contributes to the fact that ever greater masses of the proletariat are concentrated in large capitalist enterprises, in industrial centres. This makes it easier for the workers to rally and organize themselves to fight capital.

### **Industrial Reserve Army.**

The growth of production under capitalism, as has already been said, is accompanied by an increase in the organic composition of capital. The demand for labour-power is not determined by the size of the total capital, but only by the variable part of it. But in the course of technical progress, the variable part of capital decreases relatively, as compared with constant capital. Therefore, with the accumulation of capital, with the growth of its organic composition, the demand for labour *decreases comparatively*, although the total number of the proletariat grows with the development of capitalism.

As a result, a large number of workers are unable to find employment for their labour. A part of the working population turns out to be "superfluous," and the so-called relative overpopulation is formed. This *overpopulation* is relative, because a part of the labour force is superfluous only in comparison with the needs of capital accumulation. Thus, in bourgeois society, as social wealth grows, one part of the working class is condemned to ever harder and more excessive work, and the other part to involuntary unemployment.

It is necessary to distinguish between the following basic forms of relative overpopulation:



*Fluid overpopulation* is formed by workers who lose their jobs for a certain period of time as a result of a reduction in production, the introduction of new machinery, and the closure of an enterprise. With the expansion of production, some of these unemployed get jobs, as well as some of the new workers from the younger generation. The total number of workers employed increases, but in a constantly decreasing proportion to the scale of production.

*Latent overpopulation* is formed by ruined small producers, especially poor peasants and farm labourers, who are engaged in agriculture only for a small part of the year, find no employment for their labour in industry, and drag out a miserable existence, making a living in the countryside.

In contrast to industry, in agriculture, due to the growth of technology, the demand for workers decreases absolutely.

*Stagnant overpopulation* is formed by those large groups of people who have lost their regular jobs, have extremely irregular occupations, and are paid well below the usual level of wages. These are vast strata of workers engaged in capitalist work at home, as well as those who live by casual day labour.

Finally, the lowest stratum of relative overpopulation consists of people who have long since been pushed out of productive life without any hope of return, and who live on odd jobs. Some of these people are engaged in begging.

The workers who have been forced out of production constitute an *industrial reserve army*, an army of the unemployed. This army is an indispensable part of capitalist economy, without which it can neither exist nor develop. In periods of industrial boom, when a rapid expansion of production is required, a sufficient number of unemployed are at the service of entrepreneurs. As a result of the expansion of production, unemployment is temporarily reduced. But then comes the crisis of overproduction, and again large masses of workers are thrown into the streets and replenish the reserve army of the unemployed.

The existence of an industrial reserve army enables the capitalists to intensify the exploitation of the workers. The unemployed have to accept the most difficult working

conditions. The existence of unemployment creates a precarious situation for workers engaged in production and sharply reduces the standard of living of the working class as a whole. That is why the capitalists are not interested in destroying the industrial reserve army, which puts pressure on the labour market and provides the capitalist with cheaply paid labour.

With the development of the capitalist mode of production, the army of the unemployed, decreasing in periods of upswing in production and increasing in periods of crisis, on the whole steadily increases.

In England, among the members of trade unions, the unemployed were: in 1853 – 1.7%, in 1880-5.5%, in 1908 – 7.8%, in 1921 – 16.6%. In the United States of America, according to official data, the number of unemployed people in the total working class was: in 1890 – 5.1%, in 1900-10%, in 1915 – 15.5%, in 1921 – 23.1%. In Germany, the number of unemployed trade union members was 0.2% in 1887, 2% in 1900, and 18% in 1926. The relative overpopulation in the countries of the colonial and semi-colonial East is enormous.

With the development of capitalism, *partial unemployment*, in which the worker is engaged in production part-time or part-time working, becomes more and more widespread.

Unemployment is the real scourge of the working class. The workers have nothing to live on except by selling their labour power. Workers thrown out of the enterprise face the threat of starvation. Often, they are forced to dig through garbage cans to find rotten food scraps. The unemployed are left homeless, as they are unable to pay for their lodging even in the slums of the big cities. In this way, the bourgeoisie is unable to provide even a slave level of existence to the wage slaves of capital.

Bourgeois economists try to justify the existence of unemployment under capitalism by referring to the eternal laws of nature. The pseudoscientific fabrications of the late XVIII–and early XIX-century English reactionary economist Malthus serve

this purpose. According to the 'law of population' invented by Malthus, since the origin of human society, the population is supposed to multiply exponentially (as 1, 2, 4, 8, etc.), and the means of subsistence due to the limited natural resources grow in arithmetic progression (as 1, 2, 3, 4, etc.). This, according to Malthus, is the main reason for the presence of an excess population, starvation and poverty of the masses. According to Malthus, the proletariat can be freed from poverty and hunger not by destroying the capitalist system, but by abstaining from marriage and artificially reducing childbearing. Malthus considered wars and epidemics beneficial, which reduce the working population. Malthus' theory is deeply reactionary. It is for the bourgeoisie a means of justifying the incurable evils of capitalism. Malthus' speculations have nothing to do with reality. The powerful technology that humanity has at its disposal is able to increase the amount of means of living at a rate that no population growth, even the fastest, can keep up with. But this is hindered by the capitalist mode of production, which is the real cause of the poverty of the masses.

Marx discovered the *capitalist law* of population, which consists in the fact that in bourgeois society, in parallel with the accumulation of capital, with the growth of social wealth, a part of the working population inevitably turns out to be surplus, pushed out of production and doomed to the torments of poverty and hunger. The capitalist law of population is engendered by the relations of production of bourgeois society.

### **Agrarian Overpopulation.**

The capitalist reserve army of labour is replenished not only by the workers who are forced out of industrial production, but also by the vast masses of the agricultural proletariat and the poor peasantry.

With the development of capitalism, the differentiation of the peasantry intensifies. A large army of agricultural workers

is formed. Large-scale capitalist economies create a demand for wage workers. But as capitalist production spreads from one branch of agriculture to another, and the use of machinery becomes more widespread, the number of wage agricultural labourers decreases. The ruined strata of the rural population are constantly being transformed into the industrial proletariat and are replenishing the army of the unemployed in the cities. A significant part of the rural population is the so-called agrarian overpopulation, or hidden overpopulation. *Agrarian overpopulation* is the surplus population in the agriculture of the capitalist countries, which is formed as a result of the ruin of the main mass of the peasantry, can only be partially employed in agricultural production and finds no use in industry.

The hidden nature of agricultural overpopulation lies in the fact that the surplus labour force in the countryside is always more or less connected with small and minute peasant farming. The agricultural labourer usually uses a small piece of land, which serves as a means of supplementing his earnings on the side or as a means of begging for a living when there is no work. Capitalism needs such farms in order to have cheap workers at its disposal.

Agricultural overpopulation under capitalism reaches enormous proportions. In tsarist Russia at the end of the 19th century, hidden rural unemployment was estimated at 13 million people. In Germany in 1907, out of 5 million peasant farms, 3 million small farms represented the reserve army of labour. In the United States of America in the 30s of this century, there were, according to official, clearly understated data, 2 million 'extra' farmers. Every year during the summer months, between 1 and 2 million American agricultural workers, along with their families and household goods, roam the country in search of earnings.

Agricultural overpopulation is particularly large in colonial countries. So, in India, where 3 /4 of the total population of the country is employed in agriculture, agricultural overpopulation is a multi-million-strong army. A significant part of the rural

population is chronically starving, and several million people die of starvation and epidemics every year.

## **The Universal Law of Capitalist Accumulation. The Relative and Absolute Impoverishment of the Proletariat.**

The development of capitalism leads to the fact that, with the accumulation of capital, enormous wealth is concentrated at one pole of bourgeois society, luxury and parasitism, waste and idleness of the exploiting classes increase; At the other end of the spectrum of society, the exploitation of the proletariat is becoming more and more intense, and unemployment and poverty are growing among those who create all the wealth by their labour.

“The greater the social wealth, the functioning capital, the size and energy of its growth, and consequently the greater the absolute size of the proletariat and the productive power of its labour, the greater the industrial reserve army... The relative size of the industrial reserve army increases with the growth of the forces of wealth. But the larger this reserve army is in comparison with the active labour army, the greater is the permanent overpopulation, the misery of which is inversely proportional to the torment of its labour... This is the absolute, universal law of capitalist accumulation.”<sup>46</sup>

The general law of capitalist accumulation is a concrete expression of the operation of the basic economic law of capitalism, the law of surplus value. The pursuit of an increase in surplus value leads to the accumulation of wealth on the side of the exploiting classes and to an increase in unemployment, poverty and oppression on the side of the propertyless classes. With the development of capitalism, the process of relative and absolute impoverishment of the proletariat takes place.

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<sup>46</sup> K. Marx, Capital, vol. I, 1953, p. 650.

*The relative impoverishment* of the proletariat consists in the fact that in bourgeois society the share of the working class in the total national income is steadily decreasing, while at the same time the share of the exploiting classes is constantly increasing.

According to American bourgeois economists, in the United States of America in the 1920s, 1% of owners owned 59% of all wealth, while the poorest strata, who made up 87% of the population, accounted for only 8% of the national wealth. Despite the absolute growth of social wealth, the share of income of the working class is sharply declining. The workers 'wages as a percentage of the capitalists' profits were: in 1889 – 70%, in 1918 – 61%, in 1929 – 47%, in 1939 – 45%.

In 1920-1921, the largest owners in England, who made up less than 2% of the total number of owners, concentrated in their hands 64% of the total national wealth of the country, and 76% of the population owned only 7.6% of the national wealth. In tsarist Russia, from 1900 to 1913, the nominal wage fund increased by almost 80% due to an increase in the number of industrial workers, while real wages fell, and the profit of industrialists increased by more than 3 times.

*The absolute impoverishment of the proletariat* consists in a direct lowering of its standard of living.

"The worker is absolutely impoverished, *i.e.*, he is very poor. He becomes poorer than before, he is forced to live worse, eat more poorly, undernourish more, huddle in cellars and attics...

Wealth grows in capitalist society with incredible speed - along with the impoverishment of the working masses."<sup>47</sup>

In order to embellish capitalist reality, bourgeois political economy tries to deny the absolute impoverishment of the proletariat. However, the facts show that under capitalism the standard of living of the working class is falling more and more. This manifests itself in many forms.

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<sup>47</sup> V. I. Lenin, *Impoverishment in capitalist society*, Works, vol. 18, pp. 405 - 406.

The absolute impoverishment of the proletariat is manifested in the fall in real wages. As has already been said, as a result of the systematic rise in the prices of consumer goods, the increase in rents, and the increase in taxes, the real wages of the workers are steadily falling. In the 20th century, the real wages of workers in Britain, the United States, France, Italy and other capitalist countries are at a lower level than in the middle of the nineteenth century.

The absolute impoverishment of the proletariat is manifested in the increase in the scale of unemployment and its duration.

The absolute impoverishment of the proletariat manifests itself in an unlimited increase in intensity and deterioration of working conditions, which lead to the fact that the worker rapidly ages, loses his ability to work, and becomes disabled. Due to the increase in the intensity of work and the lack of necessary measures for labour protection, there is a huge increase in accidents and injuries at work.

For example, in the U.S. coal industry, from 1878 to 1914, for every thousand workers employed, the number of accidents at work with a fatal outcome increased by 71.5%. In 1939 alone, more than one and a half million people were killed or injured in manufacturing in the United States. The number of accidents in the coal industry in England is also increasing: in the pre-war years, every sixth miner was a victim of an accident every year, and in 1949-1952, every third miner was a victim of some kind of accident.

The absolute impoverishment of the proletariat is manifested in a sharp deterioration in the nutrition and living conditions of the working people, as a result of which the health of the working population is undermined, the mortality rate increases, and the life expectancy of the working population is reduced. According to official housing census data, about 40% of all dwellings in the U.S. do not meet minimum sanitation and safety requirements. The mortality rate among the working population is much higher than the mortality rate among the ruling classes. Infant mortality in

Detroit's slums is 6 times higher than the U.S. average. From the 70s to the 30s, the birth rate per 1,000 people fell from 36 to 15 in England, from 39 to 19 in Germany, and from 26 to 15 in France.

The absolute impoverishment of the proletariat assumes particularly acute forms in the colonial countries, where extreme poverty and extremely high mortality of workers as a result of overwork and chronic hunger strikes are widespread.

The standard of living of the poor peasantry under capitalism is not higher, and often even lower, than that of the wage-workers. In capitalist society there is not only an absolute and relative impoverishment of the proletariat, but also the ruin and impoverishment of the main mass of the peasantry. In tsarist Russia, there were several tens of millions of starving rural poor. According to U.S. census data, over the past decades, about two-thirds of the U.S. farm population, as a rule, do not have a living wage and live in severe poverty. That is why the most vital interests impel the peasants to form an alliance with the working class, which is called upon to overthrow the capitalist system.

The path of development of capitalism is the path of impoverishment and half-starvation of the vast majority of the working people. Under the bourgeois system, the growth of the productive forces does not bring relief to the working masses, but an increase in their poverty and deprivation.

## **The Fundamental Contradiction of the Capitalist Mode of Production.**

As capitalism develops, it increasingly binds together the labour of many people. The social division of labour is growing. The transformation of separate, formerly more or less independent branches of industry into a whole series of interconnected and mutually dependent industries is taking



place. Economic ties between individual enterprises, regions, and entire countries are growing enormously.

Capitalism creates large-scale production both in industry and in agriculture. The development of the productive forces gives rise to such instruments and methods of production as require the unification of the labour of many hundreds and thousands of workers. The concentration of production is growing. In this way, the capitalist socialisation of labour, the socialisation of production, takes place.

But the growing socialisation of production is taking place in the interests of a few private entrepreneurs who seek to increase their profits. The product of the social labour of millions of people becomes the private property of the capitalists.

Consequently, there is a profound contradiction inherent in the capitalist system: production has a social character, while the ownership of the means of production remains privately capitalist, incompatible with the social character of the process of production. The contradiction between the social character of the process of production and the *private capitalist form of appropriation is the fundamental* contradiction of the capitalist mode of production, which becomes more and more acute with the development of capitalism. This contradiction manifests itself in the intensification of the anarchy of capitalist production, in the growth of class antagonisms between the proletariat and all the working masses, on the one hand, and the bourgeoisie, on the other.

## BRIEF CONCLUSIONS

1. Reproduction is a constant renewal, a continuous repetition of the process of production. Simple reproduction means the renewal of production *in the same volume*. *Expanded reproduction means the resumption of production on an increased scale*. Capitalism is characterised by

*expanded reproduction, interrupted by periods of crisis when production falls. Capitalist expanded reproduction is a constant renewal and deepening of relations Operation.*

*2. Expanded reproduction under capitalism presupposes the accumulation of capital. The accumulation of capital is the addition of a part of surplus-value to capital, or the transformation of surplus-value into capital. Capitalist accumulation leads to an increase in the organic composition of capital, i.e., to a more rapid growth of constant capital as compared with variable capital. In the course of capitalist reproduction, capital is concentrated and centralised. Large-scale production has decisive advantages over small-scale production, by virtue of which large and large enterprises displace and subjugate not only small producers, but also smaller capitalist enterprises.*

*3. With the accumulation of capital, with the growth of its organic structure, the demand for labour is relatively reduced. An industrial reserve army of the unemployed is formed. The surplus of labour-power in capitalist agriculture, which is engendered by the ruin of the main mass of the peasantry, leads to the creation of agrarian overpopulation. The general law of capitalist accumulation means the concentration of wealth in the hands of an exploiting minority and the increase in the poverty of the working people, that is, of the overwhelming majority of society. Expanded reproduction under capitalism inevitably leads to the relative and absolute impoverishment of the working class. Relative impoverishment is a fall in the share of the working class in the national income of the capitalist countries. Absolute impoverishment is a direct lowering of the standard of living of the working class.*

*4. The fundamental contradiction of capitalism is the contradiction between the social character of the process of production and the private capitalist form of appropriation. With the development of capitalism, this contradiction becomes more and more acute, and the class antagonisms between the bourgeoisie and the proletariat deepen.*

## CHAPTER X. CIRCULATION AND TURNOVER OF CAPITAL

### Circulation of Capital. Three Forms of Industrial Capital.

The condition for the existence of the capitalist mode of production is the developed circulation of commodities, i.e., the exchange of commodities by means of money. Capitalist production is inseparably linked with circulation.

Each individual capital begins its life in the form of a definite sum of money, it appears as money-capital. With money the capitalist buys commodities of a certain kind: (1) means of production and (2) *labour-power*. This act of conversion can be depicted as follows:

$$M-C < L/Pm.$$

Here *M* stands for money, *C* for commodity, *P* for labour-power, and *Pm* for means of production. As a result of this change in the form of capital, its owner has at his disposal everything that is necessary for production. Formerly he possessed capital in the form of money, but now he possesses capital of the same magnitude, but in the form of *productive capital*.

The *first stage* in the movement of capital, therefore, consists in the transformation of money-capital into productive capital.

After that, the process of production begins, in which the *productive consumption of the commodities* purchased by the capitalist takes place. It is expressed in the fact that workers expend their labour, raw materials are processed,

fuel is burned, and machines wear out. Capital again changes its form: as a result of the process of production, the advanced capital is embodied in a definite mass of commodities, it assumes the form of *commodity-capital*. In the first place, however, these are no longer the commodities which the capitalist bought when he set to work; Secondly, the value of this mass of commodities is higher than the original value of capital, because it contains the surplus-value produced by the workers.

This stage in the movement of capital can be depicted as follows:

$$C < L/Pm \dots P \dots C'.$$

Here the letter *P* stands for production, the dots before and after this letter show that the process of circulation has been interrupted and the process of production is taking place, and *C* stands for capital in the form of commodities, the value of which has increased as a result of the appropriation of surplus-value by the capitalist.

The *second stage* in the movement of capital, therefore, consists in the transformation of productive capital into commodity capital.

The movement of capital does not stop there. The goods produced must be sold. In exchange for the commodities sold, the capitalist receives a certain sum of money.

This act of conversion can be depicted as follows:

$$C' - M'.$$

Capital changes its form for the third time: it again assumes the form of money-capital. After that, its owner has a larger amount of money than he had at the beginning. The goal of capitalist production, which is the extraction of surplus value, has been achieved.

The *third stage* in the movement of capital, therefore, consists in the transformation of commodity-capital into money-capital. Having obtained the money for the commodity sold, the capitalist uses it again to buy the means of production and the labour-power necessary for further production, and the whole process is resumed again.

These are the three stages that capital successively passes through in its movement. In each of these stages, capital performs a corresponding function. The transformation of money capital into elements of productive capital ensures that the means of production belonging to capitalists are combined with the labour power of hired workers; without such a combination, the process of production cannot take place. The function of productive capital is to create a mass of commodities, new value, and consequently surplus value by the labour of hired workers. The function of commodity capital is, first, to return to the capitalist in monetary form the capital advanced by him for production, and, second, to realize in monetary form the surplus-value created in the process of production, by selling the mass of commodities produced.

Industrial capital passes through these three stages in its movement. Industrial capital in this case is understood as any capital used for the production of goods, regardless of whether it is industry or agriculture. "Industrial capital is the only form of existence of capital in which the function of capital is not only the appropriation of surplus value or surplus product, but also their creation. Therefore, it is industrial capital that determines the capitalist character of production; the existence of industrial capital involves a class contradiction between capitalists and wage workers"<sup>48</sup>.

Consequently, every industrial capital moves in the form of a cycle.

*The circulation* of capital is the successive transformation of capital from one form into another, its

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<sup>48</sup> K. Marx, *Capital*, vol. II, 1953, p. 52.

movement in three stages. Of these stages, the first and third take place in the sphere of circulation, and the second in the sphere of production. Without circulation, i.e., without the transformation of commodities into money and the reconversion of money into commodities, capitalist reproduction, i.e., the constant renewal of the process of production, is inconceivable.

The circulation of capital as a whole can be depicted as follows:

$$M-C < L/Pm \dots P \dots C' \dots M'.$$

All three stages of the circulation of capital are intimately connected with each other and depend on each other. The circulation of capital proceeds normally only if its various phases pass into one another without delay.

If capital is retained in the first stage, it means the aimless existence of money-capital. If the delay occurs in the second stage, it means that the means of production lie in vain and labour power is left unemployed. If capital is delayed in the third stage, the unsold commodities accumulate in warehouses and overflow the channels of circulation.

Of decisive importance in the circulation of industrial capital is the second stage, when it is in the form of productive capital; At this stage, the production of commodities, value, and surplus value takes place. In the other two stages, however, value and surplus-value are not created; What is happening here is only a change in the forms of capital.

Corresponding to the three stages of the circulation of capital are *three forms of industrial capital*: (1) money-capital, (2) productive capital, and (3) commodity-capital.

Every capital exists simultaneously in all three forms: while one part of it is money-capital transforming itself into productive capital, another part is productive capital transforming itself into commodity-capital, and a third part

is commodity-capital transforming itself into money-capital. Each of these parts takes on and throws off all three forms one by one. This is the case, not only with all capital individually, but also with all capitals taken together, or, in other words, with the total social capital. Therefore, Marx points out, capital can only be understood as a movement, not as a thing at rest.

In this lies the possibility of the separate *existence of the three forms of capital*. It will be shown later how merchants' capital and loanable capital are separated from the capital employed in production. On this separation is based the existence of the various groups of the bourgeoisie - industrialists, merchants, bankers - among whom the surplus value is distributed.

### **Capital Turnover. Production Time and Circulation Time.**

Every capital cycles continuously, repeating it continuously. In this way the capital completes its turnover.

*The turn-over of capital* is its cycle, taken not as a single act, but as a periodically renewed and repeated process. *The time of turn-over* of capital is the sum of the time of production and the time of circulation. In other words, the time of turn-over is the interval of time from the moment when capital is advanced in a definite form to the moment when it returns to the capitalist in the same form, but increased by the magnitude of surplus-value.

The time of production is the time during which capital is in the sphere of *production*. The most important part of the time of production is the *working period*, during which the object to be processed is directly affected by labour. The working period depends on the nature of the given branch of production, the state of technology in a particular

enterprise, and other conditions. In a spinning mill, for example, it takes only a few days to turn a certain quantity of cotton into yarn ready for sale, and in a locomotive factory the production of each locomotive requires the expenditure of many dozens of days of labour for a large number of workers.

The production time is usually longer than the working period. It also includes interruptions in processing, during which the object of labour is exposed to certain natural processes, such as the fermentation of wine, the tanning of leather, the growth of wheat, etc. With the development of technology, the time of many such processes is shortened.

*The time of circulation is the time during which capital is transformed from the form of money into the form of production, and from the form of commodities into the form of money. The length of the time of circulation depends on the conditions for the purchase of means of production and the sale of finished goods, on the proximity of the market, and on the degree of development of means of transport and communication.*

## **Fixed and Working Capital.**

The different portions of the productive capital do not circulate in the same way. The difference in the turn-over of the different portions of the productive capital arises from the difference in the manner in which each of them transfers its value to the product. Depending on this, the capital is divided into fixed and circulating.

*Fixed capital is that part of the productive capital which, while taking full part in production, transfers its value to the product, not all at once, but in parts, in the course of a series of periods of production. This is the part of the capital*



spent on the construction of buildings and structures, on the purchase of machinery and equipment.

The fixed capital is advanced by the capitalist at once for the whole period of its operation, but its value is returned to the capitalist in the form of money in parts. The elements of fixed capital usually serve the purposes of production, usually for many years; They wear out to a certain extent every year and eventually become unusable. This is *the physical deterioration* of machines and equipment.

Along with physical wear and tear, the instruments of production are also subject to *obsolescence*. A machine that has been in service for five or ten years may still be strong enough, but if by that time another machine of the same kind has been built, which is more advanced, more productive, or cheaper, this leads to the depreciation of the old machine. It is therefore in the interest of the capitalist to make full use of the machinery in the shortest possible time. Hence the tendency of the capitalists to lengthen the working day, to intensify labour, and to work enterprises in several shifts without interruptions.

*Circulating* capital is that part of the productive capital whose value is wholly transferred to the commodity in the course of one period of production and returns wholly to the capitalist in the form of money (with the addition of surplus-value) when the commodity is realised. This is the part of the capital expended in the purchase of labour-power, raw materials, fuel, and auxiliary materials, i.e., of those means of production which do not enter into fixed capital, and, as has been said, the cost of purchasing labour-power is recovered by the capitalist in abundance.

During the time when the fixed capital has made only one turn-over, the circulating capital has had time to make many turn-overs.

By selling the commodity, the capitalist obtains a certain sum of money, which contains: (1) the value of that part of the fixed capital which is transferred to the commodity in

the process of production, (2) the value of the circulating capital, and (3) the surplus-value. In order to continue production, the capitalist again employs the proceeds, corresponding to circulating capital, in hiring workers, in purchasing raw materials, fuel, and auxiliary materials. The capitalist employs the amount corresponding to the portion of the value of fixed capital transferred to the commodity to replace the wear and tear of machinery, machinery, and buildings, i.e., for the purpose of depreciation.

*Depreciation* is the gradual replacement in the form of money of the value of fixed capital by means of periodic deductions corresponding to its depreciation. Part of the depreciation expense is spent on major repairs, i.e., on the partial replacement of worn-out equipment, tools, industrial buildings, etc. The capitalists keep the bulk of the depreciation deductions in the form of money (usually in banks) in order to buy new machines to replace old ones, or to build new buildings to replace those that have fallen into disrepair, when necessary.

Marxist political economy distinguishes the division of capital into fixed and circulating capital from the division of capital into constant and variable capital. Constant and variable capital differ from each other according to the part they play in the exploitation of the workers by the capitalists, while fixed and circulating capital differ in the nature of their turn-over.

These two ways of dividing capital can be depicted as follows:

Division according to role played in process of exploitation	Division according to manner of circulation
Constant capital	<div> <div> <div>Factory buildings and outbuildings.</div> <div>Equipment, machinery.</div> </div> <div>Fixed capital.</div> </div>
Variable capital	<div> <div>Raw material, fuel, auxiliary materials.</div> <div>Workers wages</div> </div> <div>Circulating capital.</div>

Bourgeois political economy recognises only the division of capital into fixed and circulating capital, since this division of capital does not in itself show the role of labour-power in the creation of surplus-value, but, on the contrary, obscures the fundamental difference between the capitalist's expenditure on the hiring of labour-power and the expenditure on raw materials, fuel, etc.

## The Annual Rate of Surplus Value. Ways to Accelerate the Turnover of Capital.

Given the magnitude of the variable capital, the rate of turn-over of capital influences the amount of surplus-value squeezed out of the workers by the capitalist per year.

Let's take two capitals, each of which has a variable part equal to 25 thousand dollars, and the rate of surplus value is 100%. Let's say that one of them turns around once a year, and the other turns around twice a year. This means that the owner of the second capital, with the same amount of money, can employ and exploit twice as many workers in a year as the owner of the first. Therefore, by the end of the year, the results of both capitalists will be different. The first of them will receive 25 thousand dollars of surplus value for the year, and the second - 50 thousand dollars.

The annual rate of surplus-value is the ratio of the mass of *surplus-value* produced *during the year* to the advanced variable capital. In our example, the annual rate of surplus-value, expressed as a percentage, of the first capitalist is

$$25,000/25,000 = 100\%, \text{ while the second one has } 50,000/25,000 = 200\%.$$

From this it is clear that the capitalists are interested in accelerating the turn-over of capital, because this acceleration enables them to obtain the same amount of surplus-value with less capital, or to obtain a larger amount of surplus-value with the same capital. The rate of turn-over of capital also affects the amount of that part of the circulating capital which is advanced for the purchase of raw materials, fuel, and auxiliary materials.

Marx showed that the acceleration of the circulation of capital does not in itself create an atom of new value. A more rapid turnover of capital and a more rapid realisation in the form of money of the surplus-value created in a given year only enables the capitalists to employ a greater number of labourers with the same amount of capital, whose labour creates a greater mass of surplus-value per year.

As we have seen, the time of turn-over of capital consists of the time of production and the time of circulation. The capitalist strives to shorten the duration of both.

The working period required for the production of commodities is shortened with the development of the productive forces, with the growth of technology. For example, modern methods of smelting iron and steel speed up the processes many times compared to those methods that were used 100-150 years ago. Progress in the organisation of production, such as the transition to serial or mass production, has also yielded significant results.

Interruptions in processing, which form part of the production time in excess of the working period, are in many cases also shortened with the development of technology. For example, the process of tanning leather used to take weeks, but now, thanks to the use of the latest chemical methods, it requires only a few hours. In a number of industries, catalysts are widely used - substances that accelerate the course of chemical processes.

In order to accelerate the turnover of capital, the employer also has recourse to the lengthening of the working day and to the intensification of labour. If, with a 10-hour working day, the working period is 24 days, then the extension of the working day to 12 hours shortens the working period to 20 days and accelerates the turn-over of capital accordingly. The same result is produced by the intensification of labour, in which the labourer expends as much energy in 60 minutes as he used to expend in, say, 72 minutes.

Further, the capitalists seek to accelerate the turn-over of capital by shortening the time of circulation of capital. The possibility of such a reduction is created by the development of transport, the post office, the telegraph, and the better organisation of trade. But the shortening of the time of circulation is counteracted, firstly, by the extremely irrational allocation of production in the capitalist world, which causes the transport of commodities over great distances, and, secondly, by the intensification of capitalist competition and the increase in the difficulties of marketing.

Together with the circulating capital, the surplus-value created during a given period passes through circulation. The shorter the time of turn-over of capital, the more rapidly the surplus-value created by the workers is realised in the form of money, and the sooner it can be used for the expansion of production.

## BRIEF CONCLUSIONS

1. Every individual industrial capital proceeds in continuous motion in the form of a cycle, consisting of three stages. Corresponding to these three stages are three forms of industrial capital, money, production, and commodity, which differ in their functions.

2. The circulation of capital, taken not as a separate act, but as a periodically renewed process, is called the turn-over of capital. The time of turn-over of capital is the sum of the time of production and the time of circulation. The most important part of the production time is the working period.

3. Each productive capital is divided into two parts, which differ in the nature of their turn-over: fixed capital and circulating capital. Fixed capital is a part of the productive capital, the value of which is not transferred to the commodity at once, but in parts during a series of periods of production. Circulating capital is a portion of the productive capital, the value of which is wholly transferred to it in the course of one period of production, and is wholly returned to the capitalist when the commodity is sold.

4. The acceleration of the turn-over of capital enables the capitalists with the same capital to make a greater number of turn-overs in the course of the year, and consequently to employ a greater number of labourers who will produce a greater mass of surplus-value. The capitalists strive to accelerate the turn-over of capital both by improving technique and, especially, by intensifying the exploitation of the workers, i.e., by lengthening the working day and intensifying labour.

## CHAPTER XI. AVERAGE PROFIT AND PRICE OF PRODUCTION

### **Capitalist Costs of Production and Profit. Profit Margin.**

The surplus value created by the labour of wage workers in the process of production is the source of income for all the exploiting classes of capitalist society. Let us first consider the laws by virtue of which surplus-value takes the form of the profit of the capitalists who invest their capitals in the production of commodities.

The value of the commodity produced in a capitalist enterprise consists of three parts: (1) the value of constant capital (part of the value of machinery, buildings, raw materials, fuel, etc.), (2) the value of the variable capital, and (3) surplus-value. The magnitude of the value of a commodity is determined by the quantity of socially necessary labour required for its production. But the capitalist does not expend his own labour in the production of commodities, he expends his capital for this purpose.

*The capitalist cost-price of a commodity* consists of the expenditure of constant and variable capital, i.e., of the expenditure on the means of production and on the wages of the workers. What a commodity costs the capitalists is measured by the expenditure of capital, and what it costs society by the expenditure of labour. The capitalist cost of production of a commodity is therefore less than its value, or actual cost of production. The difference between the value, or real cost-price, and the capitalist cost-price is equal to the surplus-value which the capitalist appropriates gratuitously.

When the capitalist sells the commodity produced in his business, the surplus-value appears as a certain surplus over and above the capitalist cost of production. In determining the profitability of the enterprise, the capitalist compares this surplus with the capital advanced, i.e., with the total capital invested in production. The surplus-value attributable to the total capital appears as profit. *Profit* is surplus-value taken in its relation to the total capital invested in production, and which appears externally as the product of this capital. The distinction between the constant capital expended in the purchase of means of production and the variable capital expended in the hiring of labour-power is thus obscured. The result is the deceptive appearance that profit is the product of capital. In fact, the source of profit is the surplus-value created only by the labour of the workers, only by the labour-power whose value is embodied in variable capital. Marx calls profit *the transformed form of surplus-value*.

Just as the form of wages conceals the exploitation of the wage labourer by creating the false impression that all labour is paid, so the form of profit in its turn obscures the relation of exploitation by giving the deceptive appearance that profit is generated by capital itself. Thus the forms of capitalist relations of production obscure and disguise their real essence.

The degree of profitability of a capitalist enterprise for its owner is determined by the rate of profit. The rate of profit is the ratio of surplus value to all advanced capital, expressed as a percentage. For example, if the entire advanced capital is equal to 200 thousand dollars, and the profit for the year

if it is 40 thousand dollars, then the rate of profit =  $40\,000/200\,000 \cdot 100$ , or 20%

Since all the capital advanced is greater than variable capital, the rate of profit is always less than the rate of



surplus value. If in our example a capital of 200 thousand dollars consists of 160 thousand dollars of constant capital and 40 thousand dollars of variable capital, and the rate of surplus value is  $40\,000/40\,000 \cdot 100 = 100\%$ , then the rate of profit is 20%, or five times less than the rate of surplus value.

The rate of profit depends primarily on the rate of surplus-value. The higher the rate of surplus-value, the higher, other things being equal, the rate of profit. All the factors which increase the rate of surplus-value, i.e., which increase the degree of exploitation of labour by capital (the lengthening of the working day, the increase in the intensity and productivity of labour, etc.), also raise the rate of profit.

Further, the rate of profit depends on the organic composition of capital. As is well known, the organic composition of capital is the relation between constant and variable capital. The lower the organic composition of capital, i.e., the greater the relative weight of its variable part (the value of labour-power) in capital, the greater is the rate of profit at the same rate of surplus-value. Conversely, the higher the organic composition of capital, the lower the rate of profit.

Finally, the rate of profit is influenced by the rapidity of the turn-over of capital. The faster the turn-over of capital, the higher is the annual rate of profit, which is the ratio of the surplus-value produced during the year to the total capital advanced. Conversely, a slowdown in the turnover of capital leads to a fall in the annual rate of profit.

## **The Formation of the Average Rate of Profit and the Transformation of the Value of Commodities into the Price of Production.**

Under capitalism, the distribution of capital among the various branches of production and the development of technology take place in a fierce competitive struggle.

It is necessary to distinguish between intra-industry and inter-industry competition.

*Intra-branch competition* is competition between enterprises of the same industry producing homogeneous goods for the sake of a more profitable sale of these goods and the receipt of additional profits. Individual enterprises operate in different conditions and differ from each other in size, level of technical equipment and organisation of production. As a consequence, the individual value of the commodities produced by different enterprises is not the same. But competition between enterprises in the same industry leads to the fact that the prices of commodities are determined not by their individual values, but by the social value of these commodities. The magnitude of the social value of commodities, as has been said, depends on the average conditions of production in a given industry.

As a result of the fact that the price of commodities is determined by their social value, those enterprises in which the technique of production and the productivity of labour are higher than the average level of the given industry, and consequently the individual value of the commodities is lower than the social value, benefit. These enterprises receive surplus profits, or *super-profits*, which are the form of surplus value discussed above (in Chapter VII). Thus, as a result of intra-industry competition, different rates of profit are formed at individual enterprises in a given industry. Competition between individual enterprises in the same industry leads to the displacement of small and medium-sized enterprises by large enterprises. In order to resist the

competition, the capitalists, the owners of backward enterprises, try to introduce technical improvements applied by their competitors, the owners of technically more developed enterprises. As a result, there is an increase in the organic composition of capital in the industry as a whole, the super-profits received by capitalists who owned technically more developed enterprises disappear, and there is a general decrease in the rate of profit. This forces the capitalists to introduce technical improvements again. Thus, in the process of intra-branch competition, the development of technology and the growth of productive forces take place.

*Inter-branch competition* is competition between capitalists in different branches of production for the more profitable investment of capital. The capitals employed in the different branches of production have different organic compositions. Since surplus-value is created only by the labour of wage-labourers, a relatively large mass of surplus-value is produced on equal capital in the enterprises of those branches where the low organic composition of capital predominates. In enterprises with a higher organic composition of capital, on the other hand, a relatively smaller mass of surplus-value is produced. However, the competitive struggle between capitalists of different branches leads to the equalisation of the amount of profit on equal capitals.

Let us suppose that there are three branches in society—leather, textile, and machinery—with capital of the same magnitude but of different organic composition. The amount of capital advanced in each of these trades is 100 units (say, millions of pounds sterling). The capital of the leather industry consists of 70 units of constant capital and 30 units of variable capital, the capital of the textile industry consists of 80 units of constant and 20 units of variable capital, and the capital of the machinery industry consists of 90 units of constant and 10 units of variable capital. Let the rate of surplus-value be the same in all three branches and be 100

per cent. Consequently, 30 units of surplus value will be produced in the leather industry, 20 in the textile industry, and 10 in the machine-building industry. The value of goods in the first industry will be 130, in the second 120, in the third 110, and in all three industries 360.

If the goods are sold at their value, the rate of profit will be 30 per cent in the leather industry, 20 per cent in the textile industry, and 10 per cent in the machine-building industry. Such a distribution of profits will be very advantageous for the capitalists of the leather industry, but disadvantageous for the capitalists of the machine-building industry. Under these conditions, the entrepreneurs of the machine-building industry will look for a more profitable use for their capital. They will find such a use of capital in the leather industry. There will be a transfer of capital from the machine-building industry to the leather industry. As a result, the quantity of goods produced in the leather industry will increase, competition will inevitably intensify and will force entrepreneurs in this industry to reduce the prices of their goods. On the contrary, in the machine-building industry, the quantity of goods produced will decrease, and the changed relation between supply and demand will enable entrepreneurs to raise the prices of their goods.

The fall in prices in the leather industry and the rise in prices in the machinery industry will continue until the rate of profit in all three industries is about the same. This will happen when the goods of all three industries are sold at 120 units ( $130 + 120 + 110 = 360 : 3$ ). The average profit of each industry under such conditions would be 20 units. *The average profit is an equal profit on the same amount of capital invested in different branches of production.*

Thus, inter-branch competition leads to the fact that the different rates of profit existing in different branches of capitalist production *are equalised* into a general (or average) rate of profit. This equalisation is effected by the

transfer of capital (and hence labour) from one branch to another.

With the formation of the average rate of profit, the capitalists of some industries (in our case, the leather industry) are deprived of a part of the surplus value created by their workers. On the other hand, the capitalists of other branches (in our example, machine-building) realize a surplus of surplus value. This means that the former sell their goods at prices below their value, and the latter at prices above their value. The price of the commodities of each branch is now formed by the cost of production (100 units) and the average profit (20 units).

The price equal to the cost of production of the commodity plus the average profit is the price of production. In the individual enterprises of a given industry, owing to differences in the conditions of production, there are different, individual prices of production, which are determined by the individual cost of *production* plus the average profit. But commodities are sold on the average at the common, uniform price of production.

The process of formation of the average rate of profit and the price of production may be illustrated in the form of the following table:

<i>Branches of production</i>	<i>Constant capital</i>	<i>Variable capital</i>	<i>Surplus-value</i>	<i>Value of commodities</i>	<i>Average rate of profit (%)</i>	<i>Price of production of commodities</i>	<i>Variation of price of production from value</i>
Leather working	70	30	30	130	20	120	-10
Textile	80	20	20	120	20	120	
Engineering	90	10	10	110	20	120	+10
Total	240	60	60	360	20	360	

Goods produced in each of the three industries sell 120 units (say, millions of pounds sterling). Meanwhile, the value of goods in the leather industry is 130 units, in the textile industry - 120 units and in the machine-building industry - 110 units. In contrast to simple commodity production, commodities under capitalism are no longer sold at prices corresponding to their values, but at prices that correspond to prices of production.

The transformation of value into the price of production is the result of the historical development of capitalist production. Under the conditions of simple commodity production, the market prices of commodities generally corresponded to their value. In the first stages of the development of capitalism there were still considerable differences in the rates of profit in the various branches of production, since the individual branches were not yet sufficiently connected with each other, and there were guild and other restrictions that prevented the free flow of capital from one branch to another. The process of the formation of the average rate of profit and the transformation of value into the price of production is completed only with the victory of capitalist machine industry.

Bourgeois economists try to refute Marx's labour theory of value by referring to the fact that the prices of production do not coincide with the value of commodities in certain branches. In reality, however, the law of value remains fully valid under capitalist conditions, because the price of production is only *a modified form of value*.

This is evidenced by the following circumstances.

*In the first place*, some entrepreneurs sell their commodities above their value, others below, but all the capitalists together realise the whole mass of the value of their commodities. On the scale of society as a whole, the sum of the prices of production is equal to the sum of the values of all commodities.

*Secondly*, the sum of the profits of the whole capitalist class is equal to the sum of the surplus-value produced by all the unpaid labour of the proletariat. The magnitude of the average rate of profit depends on the magnitude of the surplus-value produced in society.

Thirdly, a decrease in the value of commodities leads to a decrease in their prices of production, *and an* increase in the value of commodities leads to a rise in their prices of production.

Thus, in capitalist society, the law of the average rate of profit *operates*, which consists in the fact that different rates of profit, which depend on differences in the organic composition of capital in different branches of production, are equalised as a result of competition into a general (average) rate of profit. The law of the average rate of profit, like all the laws of the capitalist mode of production, is realised spontaneously, in the midst of innumerable deviations and fluctuations. In the struggle for the most profitable employment of capital, a fierce competition is waged among the capitalists. Capitalists tend to invest their capital in those branches of production which promise them greater profits. In the pursuit of high profits, there is a flow of capital from one industry to another, as a result of which the average rate of profit is established.

Thus, on the basis of the law of the average rate of profit, the distribution of labour and means of production among the different branches of capitalist production is carried out. In developed capitalism, therefore, the law of value acts as a spontaneous regulator of production through the price of production.

The price of production is the average around which the market prices of commodities ultimately fluctuate, i.e., the prices at which commodities are actually bought and sold on the market.

The equation of the rate of profit and the transformation of value into the price of production further disguise the

relation of exploitation, further obscure the true source of capitalist enrichment. "The actual difference in magnitude between profit and surplus-value... in certain spheres of production now completely obscures the true nature and origin of profit, not only for the capitalist, who in this case has a special interest in deceiving himself, but also for the workers. With the transformation of value into the price of production, the very basis for determining value is hidden from view."<sup>49</sup>

In reality, the formation of the average rate of profit means the redistribution of surplus-value among the capitalists of the various branches of production. A part of the surplus value created in industries with a "low organic composition of capital" is appropriated by capitalists in industries with a high organic composition of capital. Consequently, the workers are exploited not only by the capitalists for whom they work, but by the capitalist class as a whole. The entire capitalist class has an interest in increasing the degree of exploitation of the workers, since this leads to an increase in the average rate of profit. As Marx pointed out, the average rate of profit depends on the degree to which all labour is exploited by all capital.

The law of the average rate of profit expresses, on the one hand, the contradictions and competitive struggle between the industrial capitalists for the division of surplus value, and, on the other hand, the deep antagonism between the two hostile classes, the bourgeoisie and the proletariat. It testifies to the fact that in capitalist society the bourgeoisie as a class confronts the proletariat as a whole, that the struggle for the partial interests of the workers or of particular groups of workers, the struggle against individual capitalists, cannot lead to a radical change in the position of the working class. The working class will be able to throw off the yoke of capital only by overthrowing the bourgeoisie as a

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<sup>49</sup> K. Marx, *Capital*, vol. III, 1953, p. 175.



class, only by abolishing the very system of capitalist exploitation.

## **The Tendency of the Rate of Profit to Fall.**

With the development of capitalism, the organic composition of capital is constantly increasing. Each individual entrepreneur, substituting more and more machinery for the workers, reduces the cost of production, expands the sale of his goods, and achieves super-profits for himself. But when the technical achievements of individual enterprises become widespread, there is an increase in the organic composition of capital in the majority of enterprises, which leads to a decrease in the general rate of profit.

In the same direction, there is a more rapid growth of fixed capital as compared with circulating capital, which leads to a slowdown in the turnover of the total capital.

The capitalists, by improving technique, strive to obtain as much profit as possible, and the result of their efforts is what none of them wanted: a reduction in the rate of profit.

Let's take an earlier example. The sum of all capitals, equal to 300 units, consists of 240 units of constant capital and 60 units of variable capital. With a rate of surplus-value of 100 per cent, 60 units of surplus-value are produced, the rate of profit being 20 per cent. Suppose that after 20 years, the total amount of capital has grown from 300 to 500 units. At the same time, as a result of the progress of technology, the organic composition of capital has increased. As a result, 500 units are divided into 425 units of constant capital and 75 units of variable capital. In this case, 75 units of surplus-value will be created at the previous rate of surplus-value. Now the profit margin will be  $75/500 \cdot 100 = 15\%$ . The mass of profit increased from 60 to 75 units, and the profit margin decreased from 20 to 15%.

Thus, an increase in the organic composition of capital leads to a fall in the average rate of profit. At the same time, a number of factors counteract the decline in the rate of return.

First, the exploitation of the working class is growing. The development of the productive forces of capitalism, which finds its expression in the increase in the organic composition of capital, at the same time leads to an increase in the rate of surplus-value. In view of this, the rate of profit falls more slowly than it would have been if the rate of surplus-value had remained unchanged.

Secondly, technological progress, by increasing the organic composition of capital, generates unemployment, which puts pressure on the labour market. This makes it possible for entrepreneurs to reduce wages and set them significantly lower than the cost of labour.

Thirdly, as the productivity of labour increases, the value of the means of production: machinery, equipment, raw materials, etc., falls. This retards the growth of the organic composition of capital and consequently counteracts the fall in the rate of profit.

Suppose that a businessman has made a worker who had previously worked on 5 looms work on 20 looms. But due to the increase in labour productivity in the machine tool industry, the cost of machine tools has halved. As a result, 20 machines are no longer 4 times more expensive than the previous 5 machines, but only 2 times. Therefore, the share of constant capital per worker will increase not fourfold, but twofold.

Fourthly, the fall in the average rate of profit is counteracted by the economy of constant capital effected by the capitalists at the expense of the health and life of the workers. In order to increase profits, employers force workers to work in cramped rooms, without sufficient ventilation, and save on devices required by safety regulations. The result of this stinginess of the capitalists is

the undermining of the health of the workers, the enormous number of accidents and the increase in mortality among the working population.

Fifthly, the fall in the rate of profit is retarded by the non-equivalence of exchange in foreign trade, when the entrepreneurs of the developed capitalist countries, exporting their goods to the colonial countries, receive super-profits.

All these counteracting factors do not destroy, but only weaken, the fall in the rate of profit, give it the character of a tendency. Thus the increase in the organic composition of capital has as its inevitable consequence the law of the *tendency of the general (or average) rate of profit to fall*.

A fall in the rate of profit does not mean a decrease in the mass of profit, that is, in the total amount of surplus value produced by the working class. On the contrary, the mass of profit increases both as the rate of surplus-value increases and as the total number of workers exploited by capital increases. For example, in the United States, the amount of industrial profit calculated according to the official data of industrial censuses was \$ 316 million in 1859, \$ 516 million in 1869, \$ 660 million in 1879, \$ 1,513 million in 1889, and \$ 2,245 million in 1899.

By intensifying the exploitation of the workers, the capitalists seek to weaken as much as possible the tendency of the rate of profit to fall. This leads to an aggravation of the contradictions between the proletariat and the bourgeoisie.

The law of the tendency of the rate of profit to fall intensifies the struggle within the bourgeoisie itself for the distribution of the total mass of profit.

In pursuit of higher profits, the capitalists rush with their capital to backward countries, where labour is cheaper and the organic composition of capital is lower than in countries with highly developed industry, and begin to intensively

exploit the peoples of these countries. This leads to an aggravation of the contradictions between the developed capitalist countries and the backward ones, between the metropolises and the colonies.

Further, in order to keep prices at a high level, entrepreneurs unite in various kinds of unions. In this way, they achieve high profits.

Finally, in an effort to compensate for the fall in the rate of profit by an increase in its mass, the capitalists expand the volume of production far beyond the limits of effective demand. In this connection, the contradictions caused by the tendency of the rate of profit to fall are especially acute during crises.

The law of the tendency of the rate of profit to fall is one of the striking indicators of the historical limitations of the capitalist mode of production. By sharpening capitalist contradictions, this law clearly shows that at a certain stage the bourgeois system becomes an obstacle to the further development of the productive forces.

## **BRIEF CONCLUSIONS**

*1. Profit is surplus-value, taken in its relation to the capital invested in production, and which appears externally as the product of the total capital. The rate was the ratio of the mass of surplus-value produced to the total capital, expressed as a percentage.*

*2. Intra-branch competition leads to the fact that the prices of homogeneous goods are determined not by the individual, but by the social value of these goods. Inter-branch competition leads to the transfer of capital from one branch to another, to the formation of an average rate of profit within the framework of all capitalist production.*

*On the basis of the law of the average rate of profit, the distribution of labour and means of production among the various branches of the capitalist economy is carried out.*

*3. As a result of the equalisation of the rate of profit, commodities are sold not at value, but at prices of production. The price of production is the price equal to the cost of production of the commodity plus the average profit. The price of production is a modified form of value. The sum of the prices of production is equal to the sum of the values of all commodities; As the value of commodities changes, so does the price of production.*

*4. With the development of capitalism, with the growth of the organic composition of capital, the average rate of profit shows a tendency to fall. At the same time, the mass of profits is steadily growing. The law of the tendency of the average rate of profit to fall leads to an aggravation of the contradictions of capitalism.*

## CHAPTER XII. COMMERCE, CREDIT, AND THE CIRCULATION OF MONEY

### Trading Profit and its Source.

Trade and usurious capital historically preceded industrial capital. Under the capitalist mode of production, these types of capital lose their former independent role; Their functions are limited to servicing industrial capital. As a consequence, under capitalism, merchant capital and interest-bearing capital differ essentially from their pre-capitalist forms.

Industrial capital, as has already been said, in the course of its circulation successively assumes three forms: money, productive, and commodity, which differ in their functions. These functional forms of industrial capital are separated from each other at a certain stage of its development. From the industrial capital employed in production, the merchant's capital, in the form of the *merchant's* capital, and *the loan* capital, in the form of the banker's capital, are separated. Within the capitalist class, there are three groups involved in the appropriation of surplus value: industrialists, merchants, and bankers.

Merchants' capital is employed in a sphere of circulation in which no surplus-value is created. Where does the merchant's profit come from? If the capitalist-industrialist were himself engaged in the sale of commodities, he would have to expend a part of his capital in furnishing commercial premises, hiring clerks, and other expenses connected with trade. In order to do this, he would have to increase the amount of capital advanced, or to reduce the volume of production with the same advanced capital. In both cases, there would be a decrease in his profits. The industrialist prefers to sell his commodity to an intermediary, the

merchant capitalist, who carries out the further promotion of the commodity to the consumers. By handing over the sale of commodities to the trader, the industrial capitalist accelerates the turnover of his capital, and the acceleration of the turnover leads to an increase in profits. This allows the industrialist to cede some share of his profits to the merchant at his own advantage. The industrialist sells a commodity to a merchant at a price that is lower than the price of production. The merchant capitalist, by selling commodities to consumers at the price of production, makes a profit. *Trade profit* is a part of the surplus-value which the manufacturer cedes to the merchant for the sale of his commodities.

The labour of wage-earners engaged in the sale of commodities, i.e., in the transformation of commodities into money and money into commodities, creates neither value nor surplus-value, but it enables the merchant capitalist to appropriate a part of the surplus-value created in production. "Just as the unpaid labour of the labourer directly creates surplus-value for the productive capital, so the unpaid labour of the commercial wage-labourers creates for the merchant capital a share in this surplus-value."<sup>50</sup> The commercial workers are exploited by the trade capitalists, just as the workers who produce commodities are exploited by the industrialists.

In order to realise a certain quantity of commodities, the trader must advance a capital of a certain magnitude for a certain period. With this capital, he seeks to make as much profit as possible. If the rate of commercial profit is less than the average rate of profit, it becomes unprofitable to engage in trade, and the traders transfer their capital to industry, agriculture, or some other branch. On the contrary, a high rate of commercial profit attracts industrial capital to trade. Competition among capitalists leads to the fact that the level of trade profit is determined by the average rate of profit,

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<sup>50</sup> K. Marx, *Capital*, vol. III, 1953, p. 305.

and the average profit is taken in relation to the total capital, including the capital functioning in the sphere of circulation.

In the form of commercial profit the real source of the increase of capital is even more concealed than in the form of industrial profit. The capital of the merchant does not participate in production. The formula for the movement of merchants' capital is:  $M-D-M'$ . Here the stage of productive capital drops out, and the connection with production is outwardly severed. A deceptive appearance is created that profit arises from trade itself by means of a surcharge to price, by the sale of commodities above the price of production. In fact, the opposite happens: the industrialist sells the commodity to the trader below the price of production, ceding to him a part of his profit, which the trader realizes by selling the goods to the consumer at the price of production.

Merchants' capital not only participates in the realisation of the surplus value created in production, but also additionally exploits the workers as consumers. Marx called capitalist trade a legalised deception. In an effort to obtain additional profits, the trade capitalists inflate prices by all means, widely use the weighing and measuring of buyers, and the sale of low-quality, falsified goods.

One of the sources of trade profit is the exploitation of small commodity producers by trading capital. Mercantile capital compels the peasants and artisans to sell it the products of their labour at low prices, and at the same time to buy from it implements, tools, raw materials, and materials at high prices.

The share of resellers in the retail price of agricultural products in the United States increased from 54% to 63% between 1913 and 1934.

All this leads to the intensification of the impoverishment of the working people and further sharpens the contradictions of capitalism.



## Circulation Costs.

The process of capitalist circulation of commodities requires certain expenditures. These costs associated with servicing the sphere of circulation are the *costs of circulation*.

A distinction must be made between two kinds of capitalist costs in the sphere of trade: first, the net costs of circulation, which are directly connected with the processes of buying and selling commodities and are derived from the peculiarities of the capitalist system; Secondly, the costs resulting from the continuation of the process of production in the sphere of circulation.

The overwhelming and ever-increasing part of the cost of circulation of capitalist trade consists of net costs. The net cost of circulation includes the costs associated with the transformation of commodities into money and money into commodities. This includes the expenditure caused by competition and speculation on advertising, the greater part of the expenditure on the wages of merchants, on the keeping of account books, on correspondence, on the maintenance of trading offices, etc. The net cost of circulation, as Marx pointed out, does not add any value to the commodity. They are a direct deduction from the total amount of value produced in society, and are covered by the capitalists from the total mass of surplus value produced by the labour of the working class. The increase in the net cost of circulation testifies to the growth of waste under capitalism. In the vast majority of cases, capitalist advertising is in one way or another associated with deceiving buyers.

In the United States, advertising expenses accounted for \$ 1.6 billion in 1934 and \$ 2.1 billion in 1940. In the decade from 1940 to 1950, advertising spending in the United States increased another 2.7 times.

With the development of capitalism and the aggravation of the difficulties in the sale of commodities, a colossal trade apparatus with many links is being created. Before reaching the consumer, the goods pass through the hands of a whole army of traders, speculators, resellers, and commission agents.

The costs associated with the continuation of the process of production in the sphere of circulation include the costs of processing, transporting, and packing commodities, which are necessary for society and do not depend on the peculiarities of the capitalist economy. Each product is only ready for consumption when it is delivered to the consumer. The costs of processing, transporting, and packaging goods correspondingly increase the cost of producing goods. The labour of the labourers expended in this way transfers the value of the expended means of production to the commodity and adds a new value to the value of the commodity.

The anarchy of capitalist production and crises, competition and speculation lead to the accumulation of gigantic, excessive stocks of commodities, lengthen and distort their paths, which leads to enormous unproductive expenditures. Capitalist advertising causes excessive, costly packaging of goods. This means that an increasing part of the costs of transporting, storing, and packing goods is converted into net costs arising from the peculiarities of the capitalist system. The continuous increase in the cost of circulation is one of the indicators of the growth of parasitism in bourgeois society. The costs of capitalist trade place a heavy burden on the working people as buyers.

In the United States, the cost of circulation was 31% in 1929 and 32.8% in 1935, but today it is even higher. In the capitalist countries of Europe, the cost of circulation is about a third of the total retail turnover.

## Forms of Capitalist Trade. Commodity Exchanges.

With the development of capitalist production and circulation, the forms of trade, both wholesale and retail, also developed. *Wholesale* trade is trade between industrial and commercial enterprises, and *retail trade* is the sale of goods directly to the public.

In trade, as in industry, there is a *concentration* and *centralisation of capital*. The ousting of small and medium capitalists by the big capitalists takes place both in wholesale and retail trade. In the retail trade, the concentration of capital is carried out mainly in the form of the creation of large department stores and specialised stores. Department stores sell all kinds of goods, while specialty stores sell only one type of product, such as shoes or clothing.

The production of homogeneous goods allows traders to wholesale by design. Mass homogeneous goods (cotton, flax fibre, ferrous and non-ferrous metals, rubber, grain, sugar, coffee, etc.) are sold and bought according to established standards and samples on commodity exchanges.

A *commodity exchange* is a special kind of market where mass homogeneous commodities are traded, and where the demand and supply of these commodities are concentrated on the scale of entire countries, and often on the scale of the world capitalist market.

Commodities that are the subject of exchange transactions between capitalists do not change hands directly. Transactions are usually made on time: the seller undertakes to deliver a certain amount of goods to the buyer by the specified time. For example, in the spring, deals are made for the supply of cotton of the future crop, while the cotton has not yet been sown. When concluding exchange transactions, the seller expects that the price of this product will fall by the set date and he will get the difference in prices, while the buyer

expects an increase in prices. Often, sellers on the exchange do not have the goods they sell at all, and buyers do not need the goods they buy. Thus, commodity exchanges are *a place for speculative trading*. Speculators buy and sell ownership of commodities to which they have nothing to do. Speculation is inseparably linked with the whole structure of capitalist trade, since this trade is aimed not at satisfying the needs of society, but at making a profit. It is mainly the big capitalists who profit from speculative trade. It leads to the ruin of a significant part of small and medium-sized entrepreneurs.

In bourgeois countries, trade on credit or in instalments is often used. This type of trade often leads to the fact that the mass consumer is forced to pay with his property, not being able to repay the debt on time. Trade on credit is often used by capitalists for the sale of defective, stale goods.

## Foreign Trade.

As already mentioned, the transition to capitalism was associated with the creation of the world market. Lenin pointed out that capitalism is the result of “a widely developed *circulation of commodities* which goes beyond the boundaries of the state. Therefore, it is impossible to imagine a capitalist nation without foreign trade, and there is no such nation.”<sup>51</sup> In the course of the development of commodity circulation, which goes beyond the limits of national markets, capitalist foreign trade expands. The expansion of world trade in itself expresses the development of the international division of labour associated with the growth of productive forces. But for the capitalists, foreign trade is a means of increasing profits. In the pursuit of profit, capitalists are looking for new markets for their goods and

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<sup>51</sup> V. I. Lenin, Development of Capitalism in Russia, Works, vol. 3, p. 43.

sources of raw materials. The narrowness of the domestic market as a result of the impoverishment of the masses and the seizure of domestic sources of raw materials by the big capitalists increase their desire to dominate foreign markets and increase the importance of foreign trade.

Foreign trade reached its full development only in the epoch of capitalism. In the hundred years from 1800 to 1900, the turnover of world trade increased by more than  $12\frac{1}{2}$  times: from \$1.5 billion to \$18.9 billion. Over the next three decades, it increased by more than  $3\frac{1}{2}$ . In 1929, it reached \$68.6 billion.

Foreign trade is a source of additional profit for the capitalists of the more developed bourgeois countries, since manufactured goods are sold to the backward countries at relatively higher prices, and raw materials are bought in these countries at lower prices. Foreign trade serves as one of the means of economically enslaving the backward countries by the developed bourgeois countries and expanding the spheres of influence of the capitalist powers.

For example, the English East India Company plundered India for more than 250 years (1600-1858). As a result of the predatory exploitation of the local population by the East India Company, many provinces of India were turned into deserts: the fields were not cultivated, the land was overgrown with bushes, and the population died out.

Foreign trade consists of *exports*, i.e., the export of goods, and *imports*, i.e., the importation of goods. The ratio between the sum of the prices of the commodities exported by a given country and the sum of the prices of the commodities imported by it during a certain period, e.g., a year, constitutes its balance of trade. If exports exceed imports, the trade balance is *positive*, and if imports exceed exports, the *trade balance* is *passive*.

A country with a passive trade balance must cover the deficit from sources such as gold reserves, income from the transportation of goods from foreign countries, income from investments in other countries, and finally from foreign loans.

The trade balance does not reveal all forms of economic relations between countries. This relationship finds a fuller expression in the balance of payments. *The balance* of payments is the ratio between the sum of all payments owed to a country from other countries and the sum of all payments that that country owes to other countries.

The nature of economic relations between the countries also determines the foreign trade policy of the capitalist states. In the era of pre-monopoly capitalism, two main types of trade policy developed: a policy of free trade (*free trade*) and a policy of protection of domestic industry (*protectionism*), mainly through the introduction of high customs duties on foreign goods.

## Loan Capital.

Just as commodity-capital is isolated in the form of merchants' capital, money-capital is isolated in the form of loanable capital.

In the process of turn-over of capital, the industrial capitalist at certain moments acquires free money-capital, which finds no use in his business. For example, when a capitalist accumulates a sinking fund for the replacement of retired parts of fixed capital, he has temporarily free sums of money. These sums will be spent on the purchase of new equipment and machines only in a few years. If an industrialist sells finished goods on a monthly basis and buys raw materials every six months, he has free money on hand for five months. It is inactive capital, i.e., capital that yields no profit.

At other times, the capitalist has a need for money, for example, when he has not yet managed to sell the finished commodity, and he needs to buy raw materials. While one entrepreneur has a temporary surplus of money-capital, another makes a demand for it. In the pursuit of profit, the capitalist strives to ensure that every particle of his capital yields income. The capitalist *lends* free money, i.e., for temporary use to other capitalists.

*Loanable* capital is money-capital which its owner lends for a time to another capitalist for a certain remuneration. The distinguishing feature of loanable capital is that it is not employed in production by the capitalist whose property it is. By being able to borrow money, the industrial capitalist is relieved of the need to keep large reserves of money idle. The money loan enables the industrialist to expand production, to increase the number of workers, and consequently to increase the amount of surplus-value obtained.

As a reward for the money-capital placed at his disposal, the manufacturer pays to the owner of this capital a certain sum, called interest. *Interest* is the part of the profit which the industrial capitalist pays to the loan capitalist for the loan granted to him by the latter. The source of interest is surplus value. Loanable capital is interest-bearing capital.

The movement of loan capital is based entirely on the movement of industrial capital. The borrowed capital is used in production for the purpose of extracting surplus value. Therefore, loan capital, like all capital in general, expresses first of all the relations of production between capitalists and the workers they exploit. At the same time, loan capital directly expresses the relations between two groups of capitalists: on the one hand, money capitalists, and on the other hand, functioning capitalists (industrialists and merchants)

The formula for the movement of loanable capital is  $M - M'$ . Not only the stage of productive capital, but also the stage of commodity-capital, is omitted here. It appears that the

source of income is not the surplus value produced by the exploitation of the workers in the sphere of production, but the money itself. That loanable capital yields a revenue in the form of interest, appears to be as natural a property of money as that a fruit-tree bears fruit. Here the fetishism characteristic of capitalist relations reaches its highest limit.

The owner of money-capital places his capital at the disposal of the industrial capitalist for a time, who employs it in production for the purpose of appropriating surplus-value. Thus there is a separation of the ownership of capital from the application of capital to *production*, a *separation of capital as property from capital as a function*.

### **Interest and Entrepreneurial Income. The Rate of Interest and its Tendency to Fall.**

The industrialist gives the money-capitalist a part of his profit in the form of interest. Thus, the average profit is divided into two parts. That part of the average profit which remains in the hands of the industrial capitalist is called *entrepreneurial income*.

If the form of interest gives the false impression that interest is the natural product of capital-property, the form of entrepreneurial income gives rise to the illusion that this income is the payment of the “labour” of the functioning capitalist in directing and supervising the work of the wage-earners in his enterprise. As a matter of fact, entrepreneurial income, like interest, has nothing to do with the work of directing production; It is a part of the surplus-value appropriated by the capitalists free of charge.

The proportion in which the average profit is divided into entrepreneurial income and interest depends on the ratio of the demand and supply of loanable capital, on the state of



the money-capital market. The higher the demand for money-capital, the higher the rate of interest, other things being equal. *The rate* of interest is the ratio of the amount of interest to the money-capital lent. Under ordinary conditions, the upper limit of the rate of interest is the average rate of profit, since interest is a part of the profit. As a rule, the rate of interest is much lower than the average rate of profit.

With the development of capitalism, the rate of interest shows a tendency to fall. This tendency is the result of two causes: first, the operation of the law of the tendency of the average rate of profit to fall, since the average rate of profit forms the upper limit of fluctuations in the rate of interest. Secondly, with the development of capitalism, the total quantity of loan capital grows faster than the demand for it. One of the reasons for the growth of loan capital is the increase among the bourgeoisie of the group of rentiers, i.e., capitalists, owners of money-capital who are not engaged in entrepreneurial activity. This is also a manifestation of the intensification of parasitism in bourgeois society. The growth of loan capital is facilitated by the centralisation of free funds in banks and savings banks.

From 1866 to 1880, the interest rate on short-term loans in the U.S. money market was as follows: 3.6 (lowest rate) to 17 (highest rate), in 1881 - 1900 respectively - from 2.63 to 9.75, in 1901 - 1920 - from 2.98 to 8.0, in 1921 - 1935 - from 0.75 to 7.81.

## **Forms of Credit. Banks and Their Operations.**

Capitalist credit is a form of movement of loan capital. By means of credit, temporarily free money-capital is

transformed into loanable capital. Under capitalism there are two forms of credit: commercial credit and banking credit.

*Commercial credit* is credit given to each other by functioning capitalists (i.e., industrialists and merchants) in the sale of goods. The industrialist, in order to hasten the turn-over of his capital in the form of commodities, sells the commodity on credit to another manufacturer or wholesaler, and the wholesaler in his turn sells the commodity on credit to the retailer. Commercial credit is used by capitalists in the purchase and sale of raw materials, fuel, equipment, machinery, and consumer goods. Usually, a commercial loan is short-term: it is granted for a period of no more than a few months. The instrument of commercial credit is the promissory note. *A promissory note is a promissory note* under which the debtor undertakes to pay money for the purchased goods by a certain date. When the bill becomes due, the buyer who issued the bill must pay it in cash. Commercial credit is thus linked to a commodity transaction. As a consequence, it is the basis of the capitalist credit system.

*Banker's credit* is credit given by money capitalists (bankers) to functioning capitalists. Banker's credit, unlike commercial credit, does not come from capital employed in production or circulation, but from idle and temporarily free money-capital seeking employment. Banker's credit is carried out by banks. *A bank* is a capitalist enterprise that trades in money capital and acts as an intermediary between creditors and borrowers. On the one hand, the bank collects free, idle capitals and revenues, and on the other hand, it places money-capital at the disposal of functioning capitalists, industrialists and merchants.

The overwhelming majority of the bank's capital is someone else's property and must be returned. But at any given moment, only a comparatively small fraction of depositors are claiming the return of their deposits. In most cases, the withdrawal of money is balanced and covered by

the inflow of new deposits. The situation changes radically in the face of some kind of upheaval - a crisis or a war. In this case, depositors simultaneously demand the return of deposits. Under normal circumstances, however, a bank can hold only comparatively small sums of money in its treasury to pay back those who demand back their deposits. The majority of deposits are lent by the bank.

Bank operations are divided into passive and active.

*Passive* transactions are those through which the bank attracts funds to its cash desk. Chief among these operations is the acceptance of deposits. Deposits are made on different terms: some are for a certain period, others are made without specifying a term. The bank is obliged to repay term deposits on demand, while term deposits are subject to repayment only within the agreed period. Thus, term deposits are more profitable for the bank.

*Active* transactions are those through which a bank lends money. One of these operations is the *discounting of bills of exchange*. The industrialist who sells his goods on credit transfers the bill received from the buyer to the bank, and the bank immediately pays the manufacturer the amount of the bill less a certain interest. At the end of the term, the drawer of the bill no longer pays the industrialist, but the bank. Through this operation, commercial credit is intertwined with banking credit. Further, the active operations of the bank include the issuance of loans against various types of security: secured by goods, securities, commodity documents. Finally, the bank makes direct investments (investments) of capital in certain enterprises in the form of a long-term loan.

Thus the banker is a trader in money-capital. The bank pays interest on passive operations, and it receives interest on active operations. The bank borrows money at a lower interest rate and lends it back at a higher interest rate. The source of the bank's profit is the difference between the interest charged by the bank for loans and the interest paid

by it on deposits. This difference covers the costs associated with the execution of its operations; These costs are the net cost of circulation. The remaining amount is the bank's profit. The mechanism of capitalist competition spontaneously reduces the level of this profit to the average rate of return on equity. The labour of the wage earners employed in the bank does not create value and surplus value, but enables the banker to appropriate a part of the surplus value created in production. Bank employees are thus exploited by bankers.

Banks play the role of clearing houses. Each company that has made a deposit or received a loan has a current account with the bank. The bank issues money from the current account on a special request, which is called *a check*. Therefore, the bank performs the functions of a cashier for many enterprises. This circumstance opens up the possibility of a wide development of non-cash payments. Capitalist A, having sold the commodity to Capitalist B, receives a cheque from him to the bank where both have current accounts. The bank makes the payment by transferring the amount of the check from the current account B to the current account A. Companies have current accounts in various banks. In the largest centres, banks set up special clearing houses, where cheques received from many banks are largely mutually redeemed. The circulation of cheques and bills of exchange reduces the need for cash.

Under capitalism there are three main types of banks: commercial, mortgage, and issue. *Commercial banks* lend to industrialists and merchants primarily by issuing short-term loans. In this case, the accounting of bills plays an important role. This credit is provided mainly by deposits.

*Mortgage banks* are engaged in issuing long-term loans secured by real estate (land plots, houses, buildings). The emergence and activity of mortgage banks are closely connected with the development of capitalism in agriculture and with the exploitation of the peasants by the bankers. This

type of bank is joined by agricultural banks, which provide long-term loans for productive purposes.

*Issuing banks* have the right to issue credit money - banknotes. Central banks of issue play a special role. These banks concentrate the country's gold reserves. They have a monopoly on the issue of banknotes. Central banks usually do not conduct transactions with individual industrialists and traders, but give loans to commercial banks, which in turn deal with entrepreneurs. Thus, central banks of issue are banks of banks.

By concentrating loan operations and payments, banks contribute to the acceleration of the turnover of capital and the reduction of the costs of money circulation. At the same time, the activity of banks contributes to the centralisation of capital, the ousting of small and medium capitalists, the intensification of the exploitation of workers, and the robbery of handicraftsmen and artisans. Mortgage loans ruin the peasants, because the payment of interest on these loans, absorbing a large part of their income, leads to the decline of the economy. Debt repayment is often carried out by selling off the property and land of peasants who have become dependent on banks.

Concentrating all the money capital of society, acting as intermediaries for credit, banks are a kind of apparatus for the spontaneous distribution of resources among the branches of the economy. This distribution takes place not in the interests of society and not in accordance with its needs, but in the interests of the capitalists. Credit contributes to the expansion of production, but this expansion again and again runs up against the narrow limits of effective demand. Credit and banks lead to a further increase in the socialisation of labour, but the social character of production comes into ever sharper conflict with the private capitalist form of appropriation. Thus, the development of credit sharpens the contradictions of the capitalist mode of production and intensifies its anarchy.

## Joint-Stock Companies. Fictitious Capital.

In modern capitalist countries, the overwhelming majority of large enterprises take the form of joint-stock companies. Joint-stock companies appeared at the beginning of the 17th century, but they became widespread only in the second half of the 19th century.

*A joint-stock company is a form of enterprise, the capital of which is made up of the contributions of its members who own a certain number of shares, in proportion to the amount of funds invested by each of them. A share is a security that gives the right to participate in the distribution of income from the enterprise in accordance with the amount indicated on it.*

The income received by the owner of the shares is called *a dividend*. Shares are bought and sold at a certain price, which is called their *price*.

A capitalist who buys shares could invest his capital in a bank and get, say, 5%. However, he is not satisfied with this income, he prefers to buy shares. Although this is associated with some risk, but it promises him a higher income. Let us assume that the share capital of \$ 10 million is divided into 20 thousand shares at a price of \$ 500 each, and that the company has made a profit of \$ 1 million. The joint-stock company decides to leave \$ 250,000 of this amount as a reserve (i.e. reserve) capital, and distribute the remaining \$ 750,000 as a dividend among shareholders. In this case, each share will bring its owner an income in the form of a dividend (\$750 thousand : 20 thousand shares) of \$ 37.5, which is 7.5%.

Shareholders seek to sell their shares for an amount that, if deposited in the bank, would yield the same amount of interest as they receive in the form of a dividend. If a \$ 500 share paid \$ 37.5 in dividends, shareholders will seek to sell it for \$ 750, since by depositing this amount in a bank that pays 5% on deposits, its owner can receive the same \$ 37.5 in interest. The share price depends on the size of the dividend and the level of loan interest. The share price rises when the

dividend increases or the rate of interest falls; conversely, it falls when the dividend decreases or the rate of interest rises.

The difference between the sum of the share prices issued at the establishment of a joint-stock company and the amount of capital actually invested in that enterprise constitutes the founder's profit. The *founder's profit* is one of the important sources of enrichment for the big capitalists.

If the capital previously invested in the enterprise is \$10 million, and the sum of the prices of the issued shares is \$15 million, then the founder's profit in this case will be \$5 million.

As a result of the transformation of an individual enterprise into a joint-stock company, capital receives a kind of double existence. The actual capital invested in the enterprise in the amount of \$ 10 million exists in the form of factory buildings, machinery, raw materials, warehouses, finished products, and finally in the form of known amounts of money stored in the cash register of the enterprise or in a current account in a bank. But next to this real capital, when organizing a joint-stock company, securities appear - shares worth \$ 15 million. The share is only a reflection of the really existing capital of the enterprise. But at the same time, shares already exist separately from the enterprise; they are bought and sold, banks issue loans against shares, and so on.

Formally, the supreme body of the joint-stock company is the general meeting of shareholders, which elects the board, appoints officers, hears and approves the report on the work of the enterprise, and decides on the main issues of the joint-stock company's activities. But the number of votes at the general meeting is determined in accordance with the amount of shares submitted by their owners. Therefore, in fact, the joint-stock company is entirely in the hands of a small handful of the largest shareholders. As a certain part of the shares are distributed among the small and medium

proprietors, who are deprived of the possibility of exerting any influence on the course of affairs, it is not necessary in practice for the largest capitalists to own even half the shares in order to dominate the joint-stock company. The number of shares that makes it possible to fully manage a joint-stock company is called *a controlling stake*.

Thus, a joint-stock company is a form in which big capital subjugates and uses for its own purposes the funds of small and medium capitalists. The spread of joint-stock companies greatly contributes to the centralisation of capital and the enlargement of production.

Capital that exists in the form of securities that generate income for their owners is called fictitious capital. *Fictitious capital* includes stocks and bonds. A *bond* is a debt certificate issued by a company or the government and earns its holder a fixed interest rate annually.

Securities (stocks, bonds, etc.) are bought and sold on stock exchanges. A *stock exchange* is a securities market. At any given moment, the exchange registers the rates at which securities are sold and bought; Transactions with securities and over-the-counter (for example, in banks) are made at these rates. The price of securities depends on the level of interest rate and the height of the expected income from these securities. On the stock exchange, there is speculation in securities. Since the big and big capitalists have all the advantages in the speculative game, stock speculation contributes to the centralisation of capital, the enrichment of the capitalist elite, and the ruin of the middle and small owners.

The spread of credit, and especially of joint-stock companies, more and more transforms the capitalist into the recipient of interest and dividends, while the management of production is carried on by hired persons: managers, directors. In this way, the parasitic character of capitalist property is becoming more and more intense.



## **The Money Circulation of the Capitalist Countries.**

Even before the advent of capitalism, metallic monetary systems arose, in which metal acts as a monetary commodity. Metallic monetary systems are divided into bimetallic, when the measure of value and the basis of monetary circulation are two metals - silver and gold, and monometallic, when one of the two specified metals plays this role. At the early stages of the development of capitalism (XVI-XVIII centuries), the monetary systems of many countries were bimetallic. By the end of the 19th century, almost all capitalist countries switched to a monometallic - gold monetary system. At the beginning of the 20th century, silver monometallism was still preserved in China and Mexico, but then these countries also switched to a gold currency.

The main features of the system of gold monometallism are: free minting of gold coins, free exchange of other banknotes for gold coins, and free movement of gold between countries. The free minting of gold coins means the right of private individuals to exchange their gold for coins at the mint. At the same time, coin owners have the ability to turn coins into gold bars. In this way a direct and intimate connection is established between gold as a commodity and gold coins. Under such a system, the quantity of money in circulation is spontaneously adjusted to the needs of the circulation of commodities. If there is a surplus of money, some of it goes out of circulation and becomes a hoard. If there is a shortage of money, there is an influx of it into the sphere of circulation; Money is transformed from a treasure into a medium of circulation and a means of payment. In order to serve the small circulation in gold monometallism,

inferior coins made of cheaper metals, such as silver, copper, etc., are put into circulation.

The instrument of international settlements for trade and financial and credit operations is the world money - gold. The currency of one country is exchanged for the currency of other countries at the exchange rate. *The exchange rate* is the price of the monetary unit of one country, expressed in the monetary units of other countries. For example, £1 is equal to a certain number of dollars.

Settlements on foreign trade operations can be made without the use of gold or foreign currency. In one case, it can be *clearing*, i.e. mutual offsetting of claims and obligations for commodity deliveries in bilateral trade. In the other case, settlements between countries can be made by transferring bills of exchange from country to country without sending gold.

With the growth of credit relations and the development of the function of money as a means of payment, *credit money* appeared and was widely developed. Bills of exchange, banknotes, and cheques began to function mainly as a means of payment. Although a bill of exchange is not money, it can serve as a means of payment by transferring a bill of exchange from one capitalist to another.

The main type of credit money is banknotes. *Banknotes*, or bank notes, are issued by banks to replace bills of exchange. This means that the banknote is ultimately based on a commodity transaction.

The issue of banknotes makes it possible to serve the increased circulation of commodities by means of circulation and payment without increasing the amount of metallic money. Under the gold system of currency, banknotes can be exchanged by banks for gold or other metallic money at any time. Under these conditions, banknotes circulate on a par with gold coins and cannot depreciate, since in addition to credit collateral they also have metal. With the development of capitalism, there is a relative reduction in the amount of

gold in circulation. Gold is increasingly accumulating in the form of a reserve fund in central banks of issue. The capitalist states have embarked on the path of building up gold reserves in order to strengthen their position in foreign trade, to seize new markets, and for the purpose of preparing and waging wars. Gold in circulation began to be replaced by banknotes, and then by paper money. If at first banknotes were, as a rule, redeemable for gold, then later non-redeemable banknotes began to be issued. This greatly brought banknotes closer to paper money.

As already mentioned, paper money arose on the basis of the development of the function of *money* as a medium of circulation. Paper money issued by the state with a forced exchange rate is not redeemable for gold and is a representative of full-fledged metal money in its function as a medium of circulation.

From the beginning of the First Imperialist World War (1914-1918), most of the capitalist countries switched to a system of paper money circulation. At present, there is no gold money in circulation in any country. The ruling classes of the capitalist states use the issue of irredeemable banknotes, paper money and the depreciation of currencies as a means of additional exploitation and robbery of the working people.

This is especially evident in inflation. Inflation is characterised by the presence of an excess mass of paper money in the channels of circulation, its depreciation, a rise in the prices of commodities, a fall in the real wages of workers and employees, an increase in the ruin of the peasants, and an increase in the profits of the capitalists and the incomes of the landlords. Bourgeois states use inflation as a weapon of economic warfare against other countries and the capture of new markets. Inflation often gives additional profits to exporters who buy goods in their own country with depreciated money at a low exchange rate and sell these goods abroad for hard currency. At the same time, the

growth of inflation brings disorder into economic life and arouses the indignation of the masses. This forces the bourgeois states to carry out monetary reforms in order to strengthen the monetary system and stabilize the currency.

The most common type of monetary reform is devaluation. *Devaluation* is the official depreciation of the exchange rate of paper money in relation to the metal currency, accompanied by the exchange of old, depreciated paper money for a smaller quantity of new money. In Germany, for example, in 1924 the old, depreciated money was exchanged for new money, denominated in gold marks, at the rate of 1 trillion marks for 1 mark.

Monetary reforms in the capitalist countries are carried out at the expense of the working people by increasing taxes and lowering wages.

## BRIEF CONCLUSIONS

1. *Merchants' capital serves the circulation of industrial capital. Commercial profit is the part of the surplus-value which the manufacturer concedes to the trader. The exploitation by merchant capital of its wage-earners enables it to appropriate a part of the surplus value created in production. Merchants' capital exploits workers and other strata of workers as buyers of consumer goods. With the development of capitalist trade, unproductive expenditures in the sphere of circulation increase. Foreign trade under capitalism serves as one of the means of economic enslavement of the less industrially developed countries by the more developed, industrialised capitalist powers.*

2. *Loan capital is the money-capital which its owner lends to the capitalist for a time in return for a reward in the form of interest. Interest is a portion of the profit of*

*the industrial capitalist, which he gives to the owner of the loanable capital.*

3. Capitalist credit is a form of movement of loan capital. The main types of credit are commercial and banking. The banks concentrate the money of society in their hands and make it available in the form of money capital to the functioning, to the capitalists, the industrialists and merchants. The development of credit leads to the growth of capitalist contradictions. The separation of the ownership of capital from the employment of capital in production clearly reveals the parasitic The Nature of Capitalist Property.

4. A joint-stock company is a form of enterprise, the capital of which is made up of the contributions of its members who own a certain number of shares, in proportion to the amount of funds invested by each of them. In joint-stock companies, big capital subjugates and uses in its own interests the funds of small and medium capitalists. Joint-stock companies increase the centralisation of capital.

5. With the development of credit, credit money, or banknotes, issued by banks instead of bills of exchange, became widespread. The ruling classes of capitalist society use the issue of paper money to intensify the exploitation of the working people. Through inflation, government spending is shifted onto the shoulders of the masses. Monetary reforms are carried out by capitalist states at the expense of the interests of the working people.

## **CHAPTER XIII. GROUND RENT. AGRARIAN RELATIONS UNDER CAPITALISM**

### **The Capitalist System of Agriculture and Private Ownership of Land.**

In bourgeois countries, capitalism dominates not only industry but also agriculture. Most of the land is concentrated in the hands of a class of large landowners. The bulk of marketable agricultural products are produced by capitalist enterprises on the basis of the use of hired labour. In all bourgeois countries, however, small-scale peasant farming remains the numerically predominant form of economy in agriculture (with the exception of England, where it was expropriated as early as the XVIII century).

The two main paths of development of capitalism in agriculture are the most typical.

The first way is that the old landlord economy is basically preserved and, through agrarian reforms, is gradually transformed into a capitalist one. In their transition to capitalist forms of management, the landlords used serfdom methods of exploitation along with the use of free hired labour. In agriculture, enslaving forms of dependence of the peasants on the landlords persist in the form of labour, sharecropping, and so forth. This path of capitalist evolution of agriculture is characteristic of Germany, tsarist Russia, Italy, Japan, and a number of other countries.

The second way is that the old landlord economy is broken up by the bourgeois revolution, agriculture is freed from the fetters of serfdom, as a result of which the development of the productive forces is more rapid. In

France, for example, the bourgeois revolution of 1789-1794 abolished feudal landownership. The confiscated lands of the nobility and clergy were sold. Small-scale peasant farming began to predominate in the country, but a large part of the land fell into the hands of the bourgeoisie. In the United States of America, as a result of the Civil War of 1861-1865, the slaveholding latifundia of the southern states were abolished, a lot of unoccupied land was distributed for a small fee, and agriculture began to develop along the path of capitalist farming. But even in these countries, with the development of capitalism, large-scale landed property was revived on a new, capitalist basis.

As a result of the transformation of pre-capitalist forms of land ownership, large-scale feudal and small-peasant ownership of land increasingly gave way to bourgeois landed property. An ever-increasing part of the landlords' and peasants' lands passed into the hands of banks, industrialists, merchants and usurers.

The concentration of land ownership is evidenced by the following data. In the United States of America in 1940, 79.7% of farms owned only 29.8% of the total land area, and 20.3% of farms owned 70.2% of the land. At the same time, the largest latifundia, which had over 1 thousand acres of land per farm and accounted for 1.6% of all farms, owned 34.3% of the land.

In England and Wales, 2,250 landlords own 1/2 of the cultivated land; in Scotland 4/5 of the territory belongs to 600 landlords. The possessions of individual lords reach colossal sizes. For example, the Duke of Sutherland owns 400 thousand hectares of land, the Duke of Devonshire owns 80 thousand hectares in the county of Derbyshire alone. The land of London belongs to 11 lords. A lot of land suitable for agriculture is used by landlords for non-productive purposes: for parks, hunting grounds, etc.

In France in 1929, 57.3% of the land was in the hands of 12.5% of farms, and small and small peasant farms, which made up 54.5% of farms, had only 9.8% of the land area.

In pre-revolutionary Russia, a huge amount of land was owned by landowners, the royal family, monasteries and kulaks. The largest landowners, who owned more than 500 acres of land each, in European Russia by the end of the 19th century numbered approximately 30 thousand. In their hands were 70 million acres of land. At the same time, 10.5 million ruined peasant farms, oppressed by serfdom, had 75 million dessiatines.

Under capitalism there is a *monopoly of private ownership of land* by a class of large landowners. A large landowner usually leases a considerable part of the land to tenant capitalists and small peasants. Landed property is separated from agricultural production.

The tenant capitalists pay to the landlord at a certain time, for example, annually, the rent fixed in the lease agreement, i.e., the sum of money for permission to employ his capital on a given piece of land. The main part of the rent is ground rent. Rent includes, in addition to ground rent, other elements. For example, if capital has been previously invested in the leased land plot, for example, in outbuildings or irrigation facilities, then the lessee must pay the landowner an annual interest on this capital in addition to the ground rent. In practice, tenant capitalists often cover part of the rent by lowering the wages of the workers.

Capitalist ground rent expresses the relations of the three classes of bourgeois society: the wage-workers, the capitalists, and the landowners. The surplus-value created by the labour of the wage-labourers falls first of all into the hands of the tenant capitalist. A part of the surplus-value, in the form of the average return on capital, remains with the tenant. The other part of the surplus-value, which is a surplus over and above the average profit, the tenant is compelled to give to the landlord in the form of ground rent. *Capitalist ground rent* is that part of the surplus-value which remains after deducting the average profit on the capital invested in the economy and is paid to the landlord.



It is not uncommon for the landowner not to lease the land, but to hire workers and farm himself. In such a case, rent and profit go to him alone.

A distinction should be made between differential (differential) and absolute rent.

## Differential Rent.

In agriculture, as in industry, the entrepreneur invests his capital in production only if he is assured of an average profit. Entrepreneurs who employ capital under more favourable conditions of production, for instance on more fertile plots of land, make an additional profit in addition to the average profit on capital.

In industry, surplus profit cannot be a permanent phenomenon. As soon as this or that technical improvement introduced in a particular enterprise becomes widespread, this enterprise is deprived of additional profit. In agriculture, on the other hand, the surplus profit is fixed for a more or less long period. This is explained by the fact that any number of enterprises with the most advanced machines can be built in industry. In agriculture, it is impossible to create any number of plots of land, let alone the best plots, because the amount of land is limited and all the land suitable for cultivation is occupied by private farms. The limitation of the land and its employment by individual farms determine the monopoly of *capitalist economy on the land*, or the monopoly of land as an object of economy.

Further, in industry, the price of production of commodities is determined by *the average conditions of production*. Otherwise, the price of production of agricultural commodities is formed. The monopoly of capitalist economy on the land leads to the fact that the total, regulating price of production (i.e., the cost of

production plus the average profit) of agricultural products is determined not by the conditions of production on the average, but on the *worst* of the cultivated land, since the products of the best and middle lands are insufficient to meet the social demand. If the tenant capitalist, who employs capital on the worst piece of land, did not make an average profit, he would transfer this capital to another trade.

The capitalists, who farm on the middle and better plots of land, produce agricultural commodities cheaper, that is to say, their individual price of production is lower than the general price of production. Taking advantage of the monopoly of land as an object of economy, these capitalists sell their commodities at the general price of production and thus obtain an additional profit, which forms differential rent. Differential rent arises independently of private ownership of land; It is formed by the fact that agricultural products produced under different conditions of productivity are sold at the same market price, determined by the conditions of production on the worst lands. The tenant capitalists are compelled to give differential rent to the landlords, keeping the average profit for themselves.

*Differential rent* is the surplus of profit over and above the average profit obtained in farms under more favourable conditions of production; It is the difference between the individual price of production on the best and middle plots of land and the total price of production determined by the conditions of production on the worst plots of land.

This surplus profit, like all surplus value in agriculture, is created by the labour of agricultural labourers. Differences in the fertility of land are only a condition of higher productivity on better land. But under capitalism the *deceptive appearance* is created that the rent appropriated by the owners of the land is the product of the land and not of labour. As a matter of fact, the only source of ground rent is surplus-labour, surplus-value. "With a correct understanding of rent, it

is natural first of all to admit that it is not derived from the soil, but from the product of agriculture, that is, from labour, from the price of the product of labour, for instance wheat: from the value of the agricultural product, from the labour invested in the land, and not from the land.”<sup>52</sup>

There are two forms of differential rent.

*Differential rent I* is related to the difference in soil fertility and in the location of land plots in relation to markets.

In a more fertile area, a higher yield is obtained with the same expenditure of capital. Take as an example three plots of land that are the same size but *different in fertility*.

Plot land	Cost of capital in dollars	Average profit in dollars	Products produced in centres	Custom production price		General production qualification		Differential rent 1 in dollars
				all products in dollars	one hundredweight in dollars	one hundredweight in dollars	all products in dollars	
I	100	20	4	120	thirty	thirty	120	0
II	100	20	5	120	24	thirty	150	thirty
III	100	20	6	120	20	thirty	180	60

The tenant of each of these plots spends \$100 each on hiring workers, buying seeds, machinery, implements, keeping livestock, and other expenses. The average profit is 20%. Labour invested in plots of different fertility yields a harvest of 4 quintals on one plot, 5 quintals on another, and 6 quintals on a third.

The individual price of production of the entire *mass* of manufactured products is the same at each site. It is equal to \$120 (cost of production plus average profit). The *individual unit price* of production at each site is different. A hundredweight of agricultural products from the first plot would be sold for \$30, from the second at \$24, and from the third at \$20. But as the total price of production of

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<sup>52</sup> K. Marx, *Theories of Surplus Value*, vol. II, part 1, 1936, p. 221.

agricultural commodities is the same, and is determined by the conditions of production on the worst piece of land, each hundredweight of produce on all plots will be sold at \$30. The tenant of the first (worst) plot will get \$4 for his harvest of 120 hundredweights, that is, an amount equal to his production cost (\$100), plus an average profit (\$20). The tenant of the second plot will get \$5 for his 150 quintals. Over and above the cost of production and the average profit, he will receive \$30 in surplus profit, which will constitute differential rent. Finally, the tenant of the third plot will get \$6 for 180 quintals. The differential rent here will be \$60.

Differential rent I is also related to the *difference in the location of land* plots. Farms that are located closer to the points of sale (cities, railway stations, seaports, grain elevators, etc.) save a significant part of the labour and means of production in the transportation of products in comparison with farms more distant from these points. By selling their products at the same prices, farms close to markets receive an additional profit, which forms a differential rent.

*Differential rent II* arises as a result of the additional investment of means of production and labour on the same area of land, i.e., with the *intensification of* agriculture. In contrast to extensive farming, which grows by increasing the cultivated area or pasture, intensive farming develops through the use of improved machinery, artificial fertilizers, land reclamation, breeding of more productive breeds of livestock, etc. As a result, additional profits are obtained, which form a differential rent.

Let's go back to our example. On the third plot, the best in fertility, \$100 was initially spent, 6 quintals of production were produced, the average profit was \$20, and the differential rent was \$60. Let us suppose that, at the same prices, a second, additional, more productive expenditure of capital of \$100 is made in this area, connected with the

development of technology, the use of a large amount of fertilizer, etc. As a result, an additional harvest of 7 hundredweights is obtained, the average profit on additional capital is \$20, and the surplus over and above the average profit is \$90. This surplus of \$90 is the differential rent II. As long as the old lease is in force, the tenant pays a differential rent of \$60 on the land, and pockets the surplus over and above the average profit derived from the second, additional, outlay of capital. But the land is leased for a certain period. In the subsequent lease of the land, the landlord will take into account the advantages of the additional capital expenditure and increase the rent for the land by \$90. To this end, landowners tend to enter into short-term lease agreements. From this it follows that the tenant capitalists are not interested in large expenditures which have an effect over a long period of time, since the gains from these expenditures are ultimately appropriated by the landlords.

The capitalist intensification of agriculture is carried out with the aim of obtaining the greatest profit. In pursuit of high profits, the capitalists use the land rapaciously, developing highly specialised farms with crops of a single crop. For example, in the last quarter of the 19th century in the United States, the lands of the northern states were ploughed for sowing mainly grain crops. This led to the destruction of the soil structure, its spraying, and the appearance of dust "black storms".

The production of certain crops depends on fluctuations in market prices. As a consequence, under capitalism it is impossible to introduce regular crop rotations, which are the basis of a high culture of agriculture, everywhere. Private ownership of land prevents large-scale reclamation and other works, which pay off only after a number of years. Capitalism is thus incompatible with a rational system of agriculture. "Every progress in capitalist agriculture is not only progress in the art of plundering the worker, but also in the art of

plundering the soil, every progress in increasing its fertility for a given period is at the same time progress in destroying the permanent sources of this fertility.”<sup>53</sup>

The advocates of capitalism, in an attempt to obscure the contradictions of capitalist agriculture and to justify the misery of the masses, assert that agriculture is subject to the action of an eternal, natural “law of diminishing fertility of the soil”: every additional labour applied to the land yields a smaller result than the previous one.

This invention of bourgeois political economy proceeds from the false assumption that technique in agriculture remains unchanged and that the progress of technique is an exception. As a matter of fact, the additional investment of means of production and labour in one and the same piece of land, as a rule, is associated with the development of technology, with the introduction of new and improved methods of agricultural production, which leads to an increase in the productivity of agricultural labour. The true cause of the depletion of natural fertility and the degradation of capitalist agriculture is not the “law of diminishing soil fertility” invented by bourgeois economists, but capitalist relations, primarily private ownership of land, which hinder the development of the productive forces of agriculture. As a matter of fact, under capitalism it is not the difficulty of producing agricultural products that increases, but the difficulty of obtaining these products by the workers as a result of their increasing impoverishment.

## **Absolute Rent. The Price of Land.**

In addition to differential rent, the owner of the land receives absolute rent. Its existence is connected with the existence of a monopoly of private ownership of land.

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<sup>53</sup> K. Marx, *Capital*, vol. I, 1953, p. 509.

In considering differential rent, it was assumed that the tenant of the worst piece of land, by selling agricultural goods, would gain only the cost of production plus the average profit, i.e., he would not pay the ground rent. But in reality, the owner of even the worst plot will not provide it for cultivation free of charge. The tenant of the worst plot, therefore, must have a surplus over the average profit in order to pay the rent. This means that the market price of agricultural commodities should be higher than the production price at the worst site.

Where does this surplus come from? Under capitalism, agriculture lags far behind industry in technical and economic terms. The organic composition of capital in agriculture is lower than in industry. Let us assume that the organic composition of capital in industry averages 80 c, + 20 v. With a rate of surplus-value of 100 per cent, for every 100 dollars of capital, 20 dollars of surplus-value is produced, and the price of production is 120 dollars. The organic composition of capital in agriculture, for example, is 60 c + 40 v. For every \$100, \$40 of surplus-value is produced, and the value of agricultural commodities is \$140. The tenant capitalist, like the industrial capitalist, earns an average return on his capital of \$20. Accordingly, the price of production of agricultural commodities is equal to \$120. Under these conditions, the absolute rent will be equal to  $(140 - 120)$  20 dollars. From all this it follows that the value of agricultural commodities is higher than the total price of production, and that the magnitude of surplus-value in agriculture is greater than the average profit. This surplus of surplus-value over the average profit is the source of absolute rent.

If there were no private ownership of land, this surplus would be redistributed among the capitalists, and agricultural products would then be sold at prices of production. But private ownership of land hinders free competition, the transfer of capital from industry to

agriculture, and the formation of average profits, which are common to agricultural and industrial enterprises. Agricultural products are therefore sold at a price corresponding to their value, i.e., above the general price of production. To what extent this difference can be realised and converted into absolute rent depends on the level of market prices which is established by competition.

The monopoly of private ownership of land is thus the cause of the existence of an absolute rent paid on every piece of land, irrespective of its fertility and location. *Absolute rent* is the surplus of surplus-value over the average profit, created in agriculture as a result of the lower organic composition of capital than in industry, and appropriated by the landlords by virtue of private ownership of land.

In addition to differential and absolute rent, there is monopoly rent under capitalism. *Monopoly rent* is an additional income derived from the excess of the price over the value of a commodity produced under particularly favourable natural conditions. Such, for example, is the rent for land on which it is possible to produce rare agricultural crops in limited quantities (for example, especially valuable varieties of grapes, citrus fruits, etc.), and the rent for the use of water in areas of irrigated agriculture. As a rule, the commodities produced under these conditions are sold at prices higher than their value, i.e., at monopoly prices. Monopoly rent in agriculture is paid at the expense of the consumer.

The parasitic class of large landowners, who have nothing to do with material production, by virtue of the monopoly of private ownership of land, uses the achievements of technical progress in agriculture in the interests of their enrichment. Ground rent is a *tribute* which society under capitalism is forced to pay to the large landowners. The existence of absolute and monopoly rent increases the price of agricultural products—foodstuffs for the workers, raw



materials for industry. The existence of differential rent deprives society of all the benefits of a higher productivity of labour on fertile land, and places these benefits in the hands of the landed class and the capitalist farmers. How burdensome ground rent is for society is shown by the fact that in the United States, according to the data of 1935-1937, it amounted to 26-29% in the price of corn, and 26-36% in the price of wheat.

Vast sums of money are diverted from the productive use of them in agriculture in the purchase of land. With the exception of artificial structures and improvements (buildings, irrigation, drainage of swamps, fertilisation), land in itself has no value, since it is not the product of human labour. However, land, which has no value, is an object of purchase and sale under capitalism and has a price. This is due to the fact that the land has been taken over by landowners into private ownership.

The price of a plot of land is determined depending on the annual rent it brings and the level of interest paid by the bank on deposits. The price of land is equal to the sum of money which, when deposited in the bank, will yield in the form of interest a revenue of the same magnitude as the rent received from the land. Let us suppose that a plot of land yields \$300 in rent a year, and that the bank pays 4 per cent on deposits. In this case, the price of the plot will be  $300 \cdot 100 / 4 = 7,500$  dollars. Thus the price of land is *capitalised rent*. The *price of land* is the higher the amount of rent and the lower the rate of interest.

With the development of capitalism, the amount of rent increases. This leads to a systematic increase in land prices. The price of land is also rising as a result of the tendency of the rate of interest to fall.

The following figures give an idea of the increase in land prices. The value of farms in the United States increased by more than \$ 20 billion over 10 years (from 1900 to 1910). Of this amount, the increase in the cost of inventory, buildings,

etc. was only \$ 5 billion, and the remaining \$ 15 billion was due to an increase in the price of land. Over the next decade, the total price of farms increased by \$ 37 billion. Of this amount, more than 26 billion accounted for the increase in the price of land.

### **Rent in the Mining Industry. Rent for Building Plots.**

Ground rent exists not only in agriculture. It is received by the owners of plots of land from the depths of which minerals (ore, coal, oil, etc.) are extracted, as well as by the owners of construction sites in cities and industrial centres, when residential buildings, industrial and commercial enterprises, public buildings, etc., are erected on these plots.

*Rent in extractive industry* is formed in exactly the same way as agricultural rent. Mines, mines, oil fields differ in the richness of reserves, the depth of occurrence, and the distance from points of sale; Unequal capital is invested in them. Therefore, the individual production price of each ton of ore, coal, and oil differs from the total production price. But on the market, each of these commodities is sold at the general price of production, which is determined by the worst conditions of production. The surplus profit thus obtained in the best and middle mines, mines, and oilfields, forms the differential rent which is collected by the landlord.

In addition, the landlords charge absolute rent from every piece of land, regardless of the wealth of the minerals contained in it. It is the surplus of value over the total price of production. The existence of this surplus is explained by the fact that in the extractive industry, the organic composition of capital, owing to the comparatively low level of mechanisation and the absence of costs for purchased raw

materials, is lower than the industrial average. Absolute rent raises the prices of ore, coal, oil, etc.

Finally, in the extractive industry, there is a monopoly rent on those pieces of land where extremely rare minerals are mined and sold at prices higher than the value of their extraction.

The ground rent exacted by large landowners from mines, mines, and oil fields hinders the rational use of the earth's subsoil. Private ownership of land leads to the fragmentation of the enterprises of the extractive industry, which greatly impairs the possibilities of mechanisation, complicates transportation, sorting of minerals, and so on.

*Rent for building plots* is paid to the landowner for the lease of land for the construction of residential buildings, industrial, commercial and other enterprises. The main mass of ground rent in the cities is the rent of the land under the dwelling houses. The location of construction plots has a huge impact on the amount of differential rent for construction plots. Plots located closer to the city centre and to industrial enterprises are charged the highest rent. Such is one of the reasons why in the big cities of the capitalist countries "skyscrapers" are piled up next to each other, that there is overcrowding of dwellings, narrow streets, and so forth.

In addition to differential and absolute rent, the owners of urban land, in view of the extreme scarcity of land in many cities and industrial centres, levy a tribute from society in the form of monopoly rent, which raises rents enormously. Due to the growth of the urban population, the owners of urban land inflate the rent for construction plots, which slows down housing construction. Workers are forced to huddle in slums. Rising rents lower the real wages of workers.

The monopoly of private ownership of land hinders the development of industry. In order to build an industrial enterprise, the capitalist must spend unproductively on the

purchase of land or on the payment of ground rent for a rented piece of land. Ground rent is a great expense in the manufacturing industry.

How large the size of land rents for construction sites is shown by the fact that out of the total amount of rent of 155 million pounds sterling received annually by English landlords in the 30s of the XX century, 100 million pounds sterling accounted for urban land rent. Land prices in big cities are rising rapidly.

## **Large-Scale and Small-Scale Production in Agriculture.**

The economic laws of the development of capitalism are the same for industry and agriculture. The concentration of production in agriculture, as well as in industry, leads to the ousting of small farms by large capitalist farms, which inevitably sharpens class contradictions. Defenders of capitalism are interested in obscuring and concealing this process. By falsifying reality, they created a false theory of the “stability of small-peasant farming.” According to this theory, small-peasant farming allegedly retains stability in the struggle against large-scale farming.

As a matter of fact, large-scale production in agriculture has a number of decisive advantages over small-scale production. The advantages of large-scale production are, first of all, that it has the opportunity to use expensive machines (tractors, combines, etc.), which increase labour productivity many times over. Under the conditions of the capitalist mode of production, machine technics is concentrated in the hands of the capitalist farm elite and is inaccessible to the working strata of the countryside. In the United States in 1940, only 23.1% of the total number of farmers owned tractors. Small and medium-sized farmers

continued to work in the old way, using a horse or mule, and many farms in the South had neither horse nor mule.

Large-scale production receives all the benefits from capitalist cooperation and division of labour. An important advantage of large-scale production is its high marketability. Large and largest agricultural enterprises in the United States provide the vast majority of all commercial agricultural products. At the same time, the majority of farmers are essentially engaged in consumer farming; they do not have enough of their products even to satisfy the basic needs of their families. "Small landed property, by its very nature, excludes the development of social productive forces of labour, social forms of labour, social concentration of capital, large-scale cattle breeding, and the progressive application of science".<sup>54</sup>

However, the process of the growth of large-scale production and the displacement of small-scale production in agriculture, which is characteristic of capitalism, has its own peculiarities. Large-scale capitalist agricultural enterprises are developing mainly along the path of economic intensification. Often a small farm is a large capitalist enterprise in terms of the size of the gross and marketable output produced. The concentration of agricultural production in the large capitalist economies is often accompanied by an increase in the number of the smallest peasant farms. The existence of a considerable number of such small farms in the highly developed capitalist countries is explained by the fact that the capitalists are interested in preserving farm labourers with small plots of land in order to exploit them.

The development of large-scale capitalist agricultural production is proceeding on the basis of the intensification of the differentiation of the peasantry, the growth of bondage, and the impoverishment and ruin of millions of small and medium-sized peasant farms.

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<sup>54</sup> K. Marx, *Capital*, vol. III, 1953, p. 820.

In Tsarist Russia before the October Revolution, among peasant farms there were 65% of poor peasants, 20% of middle peasants and 15% of kulaks. In France, the number of land owners decreased from 7 - 7.5 million in 1850 to 2.7 million in 1929 due to the expropriation of small peasant farms, and the number of the agricultural proletariat and semi-proletariat reached about 4 million people in 1929.

Small-scale farming in agriculture is maintained at the cost of incredible privations, the plundering of the labour of the farmer and his entire family. In spite of the fact that the peasant struggles to save his apparent independence, he loses his land and is ruined.

Mortgage credit plays an important role in the dispossession of the peasantry. A *mortgage* loan is a loan secured by land and real estate. When a farmer who farms his own land is in need of money for urgent payments (e.g., taxes), he applies to the bank for a loan. It is not uncommon for a loan to be taken to buy a piece of land. The bank lends a certain amount of money secured by a land plot. If the money is not returned on time, the land becomes the property of the bank. As a matter of fact, the bank becomes the real owner of the land even earlier, because the debtor farmer is compelled to give it in the form of interest the greater part of his income from the land. In the form of interest, the peasant actually pays the bank a ground rent for his own piece of land.

The mortgage debt of American farmers was \$3.2 billion in 1910, and \$6.6 billion in 1940. According to 1936 data, loan interest and taxes equalled approximately 45% of farmers' net income.

Debt to banks is a real scourge of small-scale production in agriculture. The number of mortgaged farms in the United States in 1890 was 28.2%, and in 1940-43.8% of the total number of farms.

Every year, a lot of mortgaged trusses are sold under the hammer. Bankrupt farmers are driven off the land. The growth of farm indebtedness expresses the process of separating landed property from agricultural production, concentrating it in the hands of large landowners, and transforming the independent producer into a tenant or hired worker.

A large number of small peasants lease small plots of land from large landowners on enslaving terms. The rural bourgeoisie rents land in order to produce for the market and make a profit. This is an *entrepreneurial lease*. The small peasant tenant is forced to rent a piece of land in order to feed himself. This is the so-called *food or starvation* rent. As a rule, the rent per hectare for small plots of land is much higher than for large ones. Small-peasant rents often absorb not only the whole surplus labour of the peasant, but also a part of his necessary labour. Lease relations here are intertwined with the remnants of serfdom. The most widespread survival of feudalism under capitalism is *sharecropping*, in which the peasant tenant pays for the leased plot in kind up to half or more of the harvested crop.

In the United States of America, the number of tenants increased relative to the total number of farmers from 25.6% in 1880 to 38.7% in 1940. In addition, 10.1% of all farmers were 'partial owners', that is, they were also forced to rent a certain part of the land they cultivated. Among the tenants 76.1% were sharecroppers. Although slavery in the United States was officially abolished in the last century, in fact, the economic remnants of slavery, especially in relation to Black sharecroppers, still exist today.

There are a significant number of sharecropper tenants in France. In addition to the in-kind rent, which amounts to half of the crop, and in some cases even more, they are often obliged to supply the landowners with the products of their economy—cheese, butter, eggs, chickens, etc., just as it was under feudalism.

## Deepening the Opposition Between Town and Country.

A characteristic feature of the capitalist mode of production is the sharp lag between agriculture and industry, the deepening and sharpening of the antagonism between town and country.

“Agriculture lags behind industry in its development, a phenomenon common to all capitalist countries and which is one of the most profound causes of the lack of proportionality between the various branches of the national economy, crises and high prices.”<sup>55</sup>

Under capitalism, agriculture lags behind industry primarily in terms of the level of productive forces. The development of technique in agriculture is much slower than in industry. Machines are used only on large farms, and small-scale peasant farms are not in a position to use them. At the same time, the capitalist use of machinery leads to the intensification of exploitation and the ruin of the small producer. The widespread use of machinery in agriculture is delayed by the cheapness of labour, which is caused by agrarian overpopulation. Agriculture under capitalism is dominated by manual labour.

Capitalism has dramatically increased the lag between the countryside and the city in the field of culture. Cities are centres of science and art. Higher educational institutions, museums, theatres, and cinemas are concentrated in the cities. All the riches of this culture are enjoyed by the exploiting classes. To a very small extent, the proletarian masses can share in the achievements of urban culture. The bulk of the peasant population of the capitalist countries, on the other hand, are cut off from the cultural centres, doomed to poverty and vegetate in ignorance.

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<sup>55</sup> V. I. Lenin, *New Data on the Laws of Development of Capitalism in Agriculture*, Works , vol. 22, p. 81.



The economic basis of the antagonism between town and country under capitalism is the exploitation of the countryside by the town, the expropriation of the peasantry and the ruin of the majority of the rural population by the whole course of development of capitalist industry, trade and the credit system. The urban bourgeoisie, together with the capitalist farmers and landlords, exploit the vast masses of the peasantry. The forms of this exploitation are manifold: the industrial bourgeoisie and the merchants exploit the countryside by means of high prices for manufactured goods and relatively low prices for agricultural commodities, the banks and usurers by means of enslaving credit, the bourgeois state by means of all kinds of taxes. The millions and billions appropriated by the big landowners through the collection of rent and the sale of land, the interest received by the banks on mortgages, etc., are diverted from the countryside to the town for the purposes of parasitic consumption by the exploiting classes.

Thus, the causes of the lag between agriculture and industry, the deepening and sharpening of the antagonism between town and country, are rooted in the system of capitalism itself.

### **Private Ownership of Land and Nationalisation of Land.**

With the development of capitalism, private ownership of land becomes more and more parasitic. The class of large landowners seizes in the form of ground rent a huge part of the income derived from agriculture. A large part of the income is diverted from agriculture and falls into the hands of the large landowners through the price of land. All this hinders the development of productive forces and increases the price of agricultural products, which places a heavy

burden on the shoulders of the working people. From this it follows that “the nationalisation of the land has become a social necessity.”<sup>56</sup> *The nationalisation of the land* is the transformation of private ownership of land into state property.

In justifying the nationalisation of land, Lenin proceeded from the existence of two types of monopolies: the monopoly of private ownership of land and the monopoly of land as an object of economy. The nationalisation of the land means the abolition of the monopoly of private ownership of land and the absolute rent associated with it. The abolition of absolute rent would lead to a fall in the price of agricultural products. But differential rent would continue to exist, since it is bound up with the monopoly of land as an object of economy. Under capitalism, differential rent would be placed at the disposal of the bourgeois state in the nationalisation of the land. The nationalisation of the land would remove a number of obstacles to the development of capitalism created by private ownership of land and would free the peasantry from feudal-serf survivals.

The demand for the nationalisation of the land was put forward by the Communist Party during the first Russian revolution of 1905-1907.

Lenin believed that the nationalisation of the land under the conditions of the bourgeois-democratic revolution was possible only with the establishment of the revolutionary-democratic dictatorship of the proletariat and the peasantry. The nationalisation of the land as a demand for the bourgeois-democratic revolution does not in itself contain anything socialist. But the abolition of landlordism strengthens the alliance of the proletariat with the main mass of the peasantry and clears the field of the class struggle between the proletariat and the bourgeoisie. In this case, the nationalisation of the land makes it easier for the

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<sup>56</sup> K. Marx, Nationalisation of the Land, K. Marx and F. Engels, Works, vol. XIII. Part I, p. 341.

proletariat, in alliance with the rural poor, to struggle for the bourgeois-democratic revolution to develop into a socialist revolution.

Developing the Marxist theory of rent, Lenin showed that the nationalisation of land within the framework of bourgeois society is feasible only in the period of bourgeois revolutions and is “unthinkable when the class struggle of the proletariat and the bourgeoisie becomes very acute”.<sup>57</sup> In the epoch of developed capitalism, when the task of the socialist revolution is on the order of the day, the nationalisation of the land cannot be carried out within the framework of bourgeois society for the following reasons. In the first place, the bourgeoisie does not dare to abolish private ownership of land, fearing that, in connection with the growth of the revolutionary movement of the proletariat, this may shake the foundations of private property in general. Secondly, the capitalists themselves acquired landed property. The interests of the bourgeois class and the landowning class are becoming more and more intertwined. In the struggle against the proletariat and the peasantry, they always act together.

The whole course of the historical development of capitalism confirms that in bourgeois society the main masses of the peasantry, mercilessly exploited by capitalists, landlords, usurers and traders, are inevitably doomed to ruin and poverty. Under capitalism the small peasants cannot hope for an improvement in their condition. That is why the fundamental interests of the main mass of the peasantry coincide with the interests of the proletariat. This is the economic basis of the alliance of the proletariat with the toiling peasantry in their common struggle against the capitalist system.

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<sup>57</sup> V. I. Lenin, *The Agrarian Program of Social-Democracy in the First Russian Revolution of 1905-1907*, Works, vol. 13, p. 291.

## BRIEF CONCLUSIONS

1. The capitalist system of agriculture is characterised by the fact that, first, the overwhelming majority of the land is concentrated in the hands of large landowners, who lease the land; secondly, the tenant capitalists conduct their economy on the basis of the exploitation of wage-workers; thirdly, there is private ownership of the means of production, including land, by a large class of small and middle peasants. The agriculture of the bourgeois countries, in spite of the growth of capitalism, it is still largely fragmented between the small and medium peasant proprietors, who are exploited by the capitalists and landlords.

2. Capitalist ground rent is that part of the surplus-value created by wage-labourers in agriculture which is a surplus over its average profit and which is paid by the tenant capitalist to the landlord for the right to use the land. The existence of capitalist ground rent is connected with the existence of a twofold kind of monopoly. The monopoly of capitalist farming on the land arises from the limitation of the land, from its employment by individual farms, and leads to the fact that the price of production of agricultural commodities is determined by the worse conditions of production. The surplus profit obtained on better land or on a more productive expenditure of capital constitutes differential rent. The monopoly of private ownership of land, with the low organic composition of capital in agriculture as compared with the composition of capital in industry, gives rise to absolute rent. With the development of capitalism, the amount of rent of all kinds increases, and the price of land, which is capitalised rent, rises.

3. In agriculture, as in industry, large-scale production displaces small-scale production. However, large-scale machine production, even in the most developed capitalist

*countries, spreads incomparably more slowly in agriculture than in industry. At the cost of excessive, exhausting labour and a sharp decline in the standard of living of the small peasant and his family, a mass of small peasant farms are preserved in the capitalist countries, which are characterised by extreme instability.*

*4. Capitalism inevitably engenders an increasing lag between agriculture and industry, and deepens and sharpens the antagonism between town and country. The monopoly of private ownership of land diverts huge funds from agriculture in the form of ground rent and unproductive costs for the purchase of land, which are spent on the parasitic consumption of the landowning class, and retards the development of the productive forces of agriculture.*

*5. The main mass of the peasantry under capitalism is doomed to ruin and impoverishment. The fundamental interests of the proletariat and the exploited masses of the peasantry coincide. Only in alliance with the proletariat and under its leadership by means of a revolution which destroys the capitalist system can the toiling peasantry free themselves from exploitation and poverty.*

## CHAPTER XIV. NATIONAL INCOME

### Total Social Product and National Income.

The total mass of material goods produced in society in a given period, for example, in a year, *constitutes the total social product* (or gross product).

In the process of reproduction, a part of the total social product equal to the value of the constant capital consumed is used to replace the expended means of production. Cotton processed at the factory is replaced by appropriate batches of cotton from the current year's harvest. In place of the burned fuel, new masses of coal and oil are delivered. Dilapidated cars are replaced by others. The remainder of the total social product embodies the new value created by the working class in the process of production.

That part of the total social product in which the newly created value is embodied is the national (or national) income. The *national income* in capitalist society is therefore equal to the value of the total social product minus the value of the means of production expended during the year, or, in other words, it is equal to the sum of the variable capital and surplus value. In its natural form, the national income is the total mass of personal consumption produced and that part of the means of production produced which goes to the expansion of production. Thus the national income is, on the one hand, the sum of the newly created value in a year, and on the other hand, the mass of various kinds of material goods, the part of the total social *product* in which the newly created *value* is embodied.

If, for example, a country produces goods worth 90 billion dollars or marks during the year, of which 60 billion will be used to compensate for the means of production spent during the year, then the national income generated during the year will be equal to 30 billion.

Under capitalism there is a mass of small commodity producers, peasants and artisans, whose labour also creates a certain part of the total social product. Therefore, the national income of the country includes the value newly created during a given period by the peasants and artisans.

The total social product, and consequently the national income, is created by the workers employed in the branches of *material production*. This includes all sectors in which material wealth is created: industry, agriculture, construction, transport, etc.

In the *non-productive* branches, which include the state apparatus, credit, trade (with the exception of those operations which are a continuation of the process of production in the sphere of circulation), etc., no national income is created.

In capitalist countries, a very large part of the able-bodied population not only does not produce the social product and the national income, but does not participate in socially useful labour at all. These include, first of all, the exploiting classes and their numerous parasitic servants, the gigantic police-bureaucratic, militarist and other apparatus that protects the system of capitalist wage slavery. A large amount of labour is expended without any benefit to society. For example, huge unproductive expenditures of labour are associated with competition, unrestrained speculation, and incredibly inflated advertising.

The anarchy of capitalist production, devastating economic crises, and significant underutilisation of enterprises sharply reduce the use of labour. Under capitalism the vast masses of the working people are deprived of the opportunity to work.

In bourgeois countries, the number of fully unemployed registered in cities between 1930 and 1938 was never below 14 million.

With the development of capitalism, the state apparatus is inflated, the number of persons serving the bourgeoisie

increases, the share of the population employed in the sphere of material production decreases, and the proportion of persons employed in the sphere of circulation increases sharply. The army of the unemployed is growing; Agrarian overpopulation is intensifying. All this severely limits the growth of the aggregate social product and national income in bourgeois society.

In the United States, 43.9% of the total working - age population was employed in material production in 1910, 41.5% in 1920, 35.5% in 1930, and 31.4% in 1940.

In the United States, the average annual growth rate of national income over the last 30 years of the nineteenth century was 4.7%, from 1900 to 1919 - 2.8%, from 1920 to 1938 - 1%, and in the years after World War II (from 1945 to 1952) - 0.8%)

## **Distribution of National Income.**

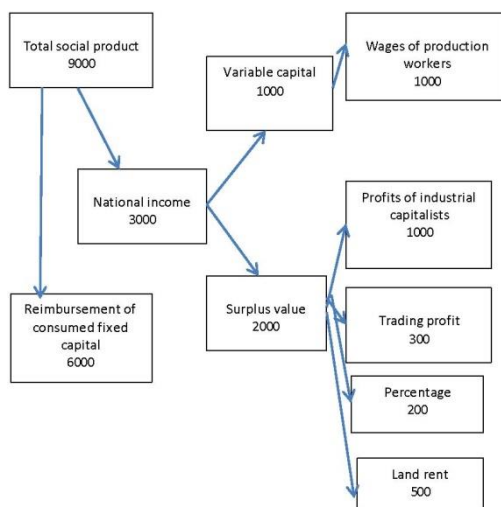
Each mode of production corresponds to historically determined forms of distribution. The distribution of the national income under capitalism is determined by the fact that ownership of the means of production is concentrated in the hands of the capitalists and landlords, who exploit the proletariat and the peasantry. As a consequence, the distribution of the national income is not in the interests of the working people, but in the interests of the exploiting classes.

Under capitalism, the national income created by the labour of the workers is primarily at the disposal of the industrial capitalists (including the capitalist entrepreneurs in agriculture). The industrial capitalists, when they sell the commodities produced, receive the whole sum of their value, including the sum of variable capital and surplus-value. Variable capital is transformed into *wages*, which the



industrial capitalists pay to the workers engaged in production. Surplus-value remains in the hands of industrial capitalists; Out of it are formed the incomes of all groups of the exploiting classes. A part of the surplus-value is converted into the surplus-value of the industrial capitalists. The industrial capitalists cede a certain share of surplus-value to the commercial capitalists in the form of *trade profit* and to the bankers in the form of *interest*. Part of the surplus-value is given by the *industrial capitalists* to the landowners in the form of *ground rent*.

This distribution of the national income among the different classes of capitalist society can be schematically represented in billions of dollars or marks as follows:



That part of the national income which is created in a given period by the labour of the peasants and artisans also goes into distribution: one part of it goes to the peasants and artisans themselves, another goes to the capitalists (kulaks,

buyers, merchants, bankers, etc.), and a third to the landowners.

Workers' incomes are based on their personal labour and represent labour income. The source of income for the exploiting classes is the labour of the workers, as well as of the peasants and artisans. The incomes of the capitalists and landlords are based on the exploitation of the labour of others and are *unearned incomes*.

In the process of further distribution of the national income, there is an increase in the unearned income of the exploiting classes. Part of the income of the population, primarily the working classes, is redistributed through the state budget and used in the interests of the exploiting classes. Thus, a part of the income of the workers and peasants, which goes to the state budget in the form of taxes, is then converted into additional income for the capitalists and into the income of officials. The tax burden imposed by the exploiting classes on the working people is increasing rapidly.

In England, at the end of the nineteenth century, taxes were 6-7% of national income; in 1913, 11%; in 1924, 23%; in 1950, 38%; in France, at the end of the nineteenth century, 10%; in 1913, 13%; in 1924, 21%; in 1950—29% of national income.

Further, a part of the national income is transferred by payment for so-called services to non-productive sectors (e.g., for the use of public utilities, medical care, entertainment enterprises, etc.). As already indicated, these branches do not create the social product, and consequently the national income; But the capitalists, by exploiting the hired workers employed here, receive a part of the national income created in the branches of material production. From this income, the capitalists, the owners of enterprises in the non-productive sectors, pay wages to hired workers, cover

the corresponding material costs (for premises, equipment, heating, etc.), and make a profit.

Thus the payment for services must recoup the costs of these enterprises and provide an average rate of profit, otherwise the capitalists will not employ their capital in these branches. In pursuit of high profits, capitalists tend to inflate service fees, which leads to a further fall in the real wages of the workers and the real incomes of the peasants.

The redistribution of national income through the budget, as well as through high wages, increases the impoverishment of workers.

As a result of the whole process of distribution of the national income, the latter is divided into two parts: (1) the income of the exploiting classes, and (2) the income of the working people employed in both the branches of material production and the non-productive branches.

In 1923, the share of workers and other working people in town and country who did not exploit the labour of others in the national income was 54 per cent, while the share of capitalists was 46 per cent. in England (in 1924) the proportion of the working people was 45 per cent, the share of capitalists 55 per cent; In Germany (in 1929) the proportion of working people was 55 per cent, and the proportion of capitalists 45 per cent. At the present time, in the capitalist countries, the working people who make up the <sup>9</sup>/<sub>10</sub> The population receives considerably less than half of the national income, and the exploiting classes much more than half.

The share of the working classes in the national income is steadily falling, while the share of the exploiting classes is increasing. In the United States, for example, the share of working people in national income was 58% in 1870, 56% in 1890, 54% in 1923, and about 40% in 1951.

The national income is ultimately used for consumption and accumulation. The use of the national income in bourgeois countries is determined by the class nature of

capitalism and reflects the ever-increasing parasitism of the exploiting classes.

The share of the national income that goes to the personal consumption of the working people, who are the main productive force of society, is so low that, as a rule, it does not even provide a subsistence minimum. The great mass of the workers and toiling peasants are compelled to deny themselves and their families the bare necessities of life, to huddle in hovels, and to deprive their children of education.

A very large part of the national income is spent on the parasitic consumption of capitalists and landowners. Colossal sums are spent by the capitalists and landowners on the purchase of luxury goods, as well as on the maintenance of numerous servants.

Under capitalism, the share of national income spent on expanding production is very small compared to the capabilities and needs of society. Thus, in the USA, the share of national income going to accumulation was approximately 10% for the period from 1919 to 1928, and in the decade from 1929 to 1938, accumulation averaged only 2% of the US national income, and during the years of crisis the amount accumulation was lower than the amount of depreciation, that is, there was consumption of fixed capital

The relatively small volume of accumulation under capitalism is due to the fact that a significant part of the national income is used for parasitic consumption by the capitalists, for unproductive expenditures. For example, the net costs of circulation for the maintenance of the commercial and credit apparatus, for the storage of surplus stocks, for the expenditure on advertising, stock speculation, etc., reach enormous proportions. In the United States, in the period between the First and Second World Wars, the net cost of circulation absorbed 17 to 19 per cent of the national income.

An ever-increasing part of the national income under capitalism is spent on military expenditures, the arms race, and the maintenance of the state apparatus.

On the surface of the phenomena of capitalist society, incomes and their sources appear in a distorted, *fetishist* form. There is a deceptive appearance that capital itself generates profit, land rent, and that the workers create only a value equal to their wages.

These fetishist notions lie at the heart of bourgeois theories of national income. With the help of theories of this kind, bourgeois economists seek to confuse the question of national income in favour of the bourgeoisie. They try to prove that, along with the workers and peasants, the national income is created by capitalists and landowners, as well as by such persons as officials, policemen, stockbrokers, clergy, etc.

Further, bourgeois economists misrepresent the distribution of the national income. They underestimate the share of income earned by capitalists and landowners. Thus, for example, the incomes of the exploiting classes are determined on the basis of grossly understated information of the taxpayers themselves; it does not take into account the enormous salaries of capitalists received by many of them as managers of joint-stock companies; At the same time, the incomes of the working people are artificially inflated by the fact that highly-paid high-ranking officials, directors of enterprises, banks, trading firms, etc., are counted among the workers.

Finally, the bourgeois economists distort the real picture of the distribution of the national income by not allocating expenditures for the consumption of the exploiting classes, for the net costs of circulation, by underestimating the share of military expenditures, and by disguising in every possible way the unproductive waste of an enormous part of the national income.

## State Budget.

The bourgeois state is an organ of the exploiting classes, whose aim is to keep the exploited majority of society in subjection and to safeguard the interests of the exploiting minority in all domestic and foreign policy.

To carry out its tasks, the bourgeois state has an extensive apparatus: the army, police, punitive and judicial bodies, intelligence, various organs of administrative management and ideological influence on the masses. This apparatus is maintained at the expense of the State budget. Taxes and loans are the source of funds for the state budget.

The state budget is an instrument for the redistribution of part of the national income in the interests of the exploiting classes. It is prepared in the form of an annual estimate of government revenues and expenditures. Marx wrote that the budget of the capitalist state “is nothing more than a class budget, a budget for the bourgeoisie”.<sup>58</sup>

The expenditures of the capitalist state are overwhelmingly unproductive.

An enormous share of the state budget under capitalism is devoted to the preparation and waging of wars. It also includes expenditures on scientific research in the field of production and improvement of new instruments of mass destruction of people, and on subversive activities abroad.

Another large share of the expenditure of the capitalist State is related to the maintenance of the apparatus of oppression of the working people. “Modern militarism is the result of capitalism. In both its forms, it is the “vital manifestation” of capitalism: as a military force used by the capitalist states in their external conflicts... and as a weapon

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<sup>58</sup> K. Marx, Pounds, shillings, and pence, or the class budget and who benefits from it, K. Marx and F. Engels, Works, vol. IX, p. 146.

used in the hands of the ruling classes to suppress all kinds of (economic and political) movements of the proletariat.”<sup>59</sup>

The state spends very considerable sums, especially in times of crisis and war, on the direct support of capitalist enterprises and on ensuring them high profits. Often, subsidies given to banks and industrialists are intended to save them from bankruptcy during crises. By means of state orders carried out at the expense of the budget, billions of additional profits are pumped into the pockets of the big capitalists.

Expenditures on culture and science, on education and public health account for an insignificant share of the state budgets of the capitalist countries. In the United States, for example, in recent years, more than 70% of the total amount of funds has been allocated for military purposes, and less than 4% for health care, public education, and housing, including less than 1% for public education.

The capitalist state receives the bulk of its income through taxes. In England, for example, taxes in the total amount of state budget revenues amounted to 89% in 1938.

Under capitalism, taxes serve as a form of additional exploitation of the working people by redistributing part of their income through the budget in favour of the bourgeoisie. Taxes are called *direct* taxes if they are levied on the income of individuals, and *indirect* taxes are levied if they are levied on goods sold (mainly consumer goods) or services (e.g., cinema and theatre tickets, public transport tickets, etc.). Indirect taxes increase the price of goods and payment for services. In fact, indirect taxes are paid by buyers. Capitalists also pass on some of their direct taxes to buyers if they succeed in raising the price of goods or services.

The policy of the bourgeois state is aimed at reducing the taxation of the exploiting classes in every possible way. Capitalists evade taxes by concealing the true amount of

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<sup>59</sup> V. I. Lenin, *Militant Militarism and Anti-Militarist Tactics of Social-Democracy*, Works, vol. 15, p. 169.

their income. The policy of indirect taxes is especially advantageous to the propertied classes. "Indirect taxation, falling on the articles of consumption of the masses, is distinguished by the greatest injustice. All its weight falls on the poor, creating a privilege for the rich. The poorer a person is, the greater the share of his income he gives to the state in the form of indirect taxes. The poor and the have-nots make up  $\frac{9}{10}$  of the total population, consumes  $\frac{9}{10}$  of all taxed products and pays  $\frac{9}{10}$  of the total amount of indirect taxes".<sup>60</sup>

Consequently, the main burden of taxes falls on the toiling masses: workers, peasants and office workers. As has already been pointed out, at the present time in bourgeois countries about one-third of the wages of workers and office workers are withdrawn to the state budget through taxes. High taxes are levied on the peasants and increase their ruin.

In addition to taxes, loans are an important source of revenue for the capitalist state. Most often, the bourgeois state resorts to loans to cover extraordinary, primarily military, expenditures. A significant part of the funds collected through loans is used by the state to pay for supplies that bring huge profits to industrialists. In the long run, borrowing leads to further increases in taxes on workers to pay the interest on the loans and to repay the loans themselves. The amount of public debt in bourgeois countries is growing rapidly.

The total amount of public debt worldwide increased from 38 billion francs in 1825 to 250 billion francs in 1900, a 6.6-fold increase. The national debt increased even faster in the 20th century. In the United States, in 1914, the amount of public debt was \$ 1.2 billion, and in 1938 - \$ 37.2 billion, that is, it increased 31 times. In England, in 1890, 24.1 million pounds were paid in interest on loans, in 1951/52 - 513.6 million; in the United States, in 1940, \$ 1 billion was paid in interest on loans, and in 1951/52 - \$ 5.9 billion.

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<sup>60</sup> V. I. Lenin, On the State Painting, Works, vol. 5, p. 309.



One of the sources of revenue for the state budget under capitalism is the *issue* of paper money. By causing inflation and rising prices, the issue of paper money transfers to the bourgeois state a part of the national income at the expense of lowering the standard of living of the masses.

Thus, the state budget under capitalism serves in the hands of the bourgeois state as an instrument for the additional robbery of the working people and the enrichment of the capitalist class, and intensifies the unproductive and parasitic character of the use of the national income.

## BRIEF CONCLUSIONS

*1. In capitalist society, the national income is that part of the total social product in which the newly created value is embodied. The national income is created in the branches of material production by the labour of the working class, as well as by the labour of peasants and artisans. In kind, the national income represents the total mass of consumer goods produced and that part of the means of production which is destined for the expansion of production. Under capitalism, a significant part of the able-bodied population not only does not create a national income, but also does not participate in socially useful labour.*

*2. The distribution of the national income under capitalism takes place in the interests of the enrichment of the exploiting classes. The share of the working classes in the national income is falling, while the share of the exploiting classes is increasing.*

*3. Under capitalism, the national income generated by the working class is distributed in the form of the wages of the workers, the profits of the capitalists (industrialists, merchants, and owners of loan capital), and the ground rent received by the landowners. A large part of the results of the labour of peasants and artisans is also appropriated by*

*capitalists and landowners. Through the state budget and through high fees for services, there is a redistribution of national income, which further increases the impoverishment of workers.*

*4. An enormous and ever-increasing part of the national income under capitalism is used unproductively: it is spent on the parasitic consumption of the bourgeoisie, on covering the exorbitantly inflated costs of circulation, on the maintenance of the state apparatus for the oppression of the masses, on the preparation and conduct of wars of conquest.*

## CHAPTER XV. THE REPRODUCTION OF SOCIAL CAPITAL

### **Social Capital. Composition of the Total Social Product.**

Capitalist reproduction includes both the direct process of production and the process of circulation.

In order for reproduction to take place, capital must be able to carry out its circulation without hindrance, i.e., to pass from money to productive, from productive to commodity, from commodity to money, and so on. "The cycles of individual capitals, however, are intertwined with each other, presuppose and condition each other, and it is precisely through this interweaving that they form the movement of the whole social capital."<sup>61</sup>

*Social capital* is the whole mass of individual capitals in their totality and interconnection. There is a many-sided relationship between the individual capitalist enterprises: some enterprises supply the other with machinery, raw materials and other means of production, while others produce the means of subsistence bought by the workers and the articles of consumption and luxury bought by the capitalists. Each of the individual capitals is independent of the others, and at the same time they are all interconnected. This contradiction is revealed in the course of the reproduction and circulation of the total social capital. The many-sided ties that exist between individual capitalists manifest themselves spontaneously as a result of the anarchy of production inherent in capitalism.

In considering the process of reproduction and circulation of the total social capital, in order not to complicate the

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<sup>61</sup> K. Marx, *Capital*, vol. II, 1953, p. 352.

matter, we assume that the whole economy of the country is carried on a capitalist basis (i.e., society consists only of capitalists and workers), and that the total constant capital is consumed during the year and its value is wholly transferred to the annual product.

The total social product is nothing but social capital (with an increment in the form of surplus value) which has emerged from the process of production in the form of commodities.

In order for production to continue, the social product must be realised, i.e., sold. *The realisation of the social product* is the change from its commodity form to a monetary one.

As has been shown above, the value of the total social product is divided into three parts: *the* first replaces constant capital, the second replaces variable capital, and the third is surplus-value. Thus the value of the social product is  $c + v + s$ . In the sale of the commodities produced, the capitalists must obtain their value, for only under this condition can they resume production. The division of the social product according to value means that different parts of it play different roles in the course of reproduction. Constant capital must continue to serve in the process of production. Variable capital is converted into wages, which the workers expend for consumption. In simple reproduction, surplus-value is wholly consumed by the capitalists, while in expanded reproduction it is partly consumed by the capitalists and partly used for the purchase of additional means of production and for the hiring of additional labour-power.

*In its natural form*, the entire social product consists of means of production and articles of consumption. In considering the circulation and turn-over of individual capital, it does not matter what kind of commodities in their natural form (use-values) are produced in a given enterprise. In considering the reproduction and circulation of the total

social capital, the natural form of the commodities produced in society acquires essential significance: for the uninterrupted renewal of the process of production, it is necessary that both the appropriate means of production and articles of consumption should be available. All social production is divided into two great divisions: the first division (I) is the production of means of production and the second division (II) is the production of articles of consumption. Consumer goods, in turn, are divided into the necessary means of subsistence, which go to satisfy the needs of the working class, the toiling masses, and luxury goods, which are available only to the exploiting classes. By steadily lowering the standard of living of the working class, the capitalists are forcing the working people to replace more and more full-fledged consumer goods with low-grade goods and surrogates. At the same time, the luxury and extravagance of the parasitic classes are growing.

The division of the social product according to its natural form, in turn, predetermines the different roles of its different parts in the course of reproduction. Thus, for example, weaving machines must be used for the production of fabrics and cannot be used for any other purpose; On the other hand, ready-to-wear garments must go for personal consumption.

The question arises: how does the realisation of a social product take place under the conditions of anarchy of capitalist production? Lenin pointed out that “the question of realisation consists precisely in analyzing the compensation of all parts of the social product in value and in material form.”<sup>62</sup> It is, therefore, a question of how, for each part of the social product in terms of value (constant capital, variable capital, and surplus-value) and its natural form (means of production, articles of consumption), another part of the product can be found on the market.

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<sup>62</sup> V. I. Lenin, *On the Characteristics of Economic Romanticism*, Works, vol. 2, p. 144.

In the discussion of expanded reproduction, the question of how surplus-value is transformed into capital, i.e., whence are obtained the additional means of production and articles of consumption for the additional labourers necessary for the expansion of production.

### **Conditions of Realisation under Capitalist Simple Reproduction.**

Let us consider, first of all, the conditions necessary for the realisation of the social product under capitalist simple reproduction, when the whole surplus-value is used for the personal consumption of the capitalists. The following example illustrates these conditions.

Let us suppose that in the first division, i.e., in the production of means of production, the value of the constant capital, expressed in millions of pounds, for example, is 4,000, of the variable capital, 1,000, and of the surplus-value, 1,000. Let us suppose that in the second division, i.e., in the production of consumable goods, the value of constant capital is 2,000, of variable capital 500, and of surplus-value 500. On this assumption, the annual social product will consist of the following parts:

$$\text{I. } 4,000 \text{ } s + 1,000 \text{ } v + 1,000 \text{ } t = 6,000$$

$$\text{II. } 2,000 \text{ } s + 500 \text{ } v + 500 \text{ } t = 3,000$$

The value of the total product produced in the first division, which exists in the form of machinery, raw materials, materials, etc., is, therefore, 6,000. In order that the process of production may be resumed, a portion of this product, equal to 4,000, must be sold to the enterprises of the first division, in order to renew the constant capital of that division. The remainder of the product of the first

division, representing the reproduced value of the variable capital (1,000) and the newly produced surplus-value (1,000), which exists in the form of means of production, is sold to the enterprises of the second division in exchange for the articles of consumption which enter into the personal consumption of the workers and capitalists of the first division. On the other hand, the capitalists of the second division need means of production to the amount of 2,000 for the renewal of their constant capital.

The value of the total product produced in the second division and existing in the form of consumable goods (bread, meat, clothing, shoes, etc., as well as luxury goods) is 3,000. A part of the consumables produced in the second subdivision is exchanged for 2,000 for the wages and surplus-value of the first subdivision. In this way the constant capital of the second subdivision is replaced. The remainder of the product of the second subdivision, representing the reproduced value of the variable capital (500) and the newly produced surplus-value (500), is realised within the second subdivision and enters into the personal consumption of the workers and capitalists of this subdivision.

Under the conditions of simple reproduction, therefore, the exchange between the two subdivisions is (1) the variable capital and surplus-value of the first subdivision, which must be exchanged for the articles of consumption produced in the second subdivision, and (2) the constant capital of the second subdivision, which must be exchanged for the means of production produced in the first subdivision. The condition for realisation in capitalist simple reproduction is the following equality: the variable capital plus the surplus-value of the first subdivision must be equal to the constant capital of the second subdivision:  $I (v + s) = II c$ .

This condition of simple reproduction can be expressed in the following way. The total quantity of commodities produced during the year in the first subdivision, by the enterprises producing the means of production, must be equal in value to

the quantity of means of production which is consumed in the enterprises of both subdivisions during the year. The total quantity of commodities produced during the year in the second subdivision, the enterprises producing articles of consumption, must be equal in value to the sum of the earnings of the workers and capitalists of the two subdivisions.

## **Conditions of Realisation Under Capitalist Expanded Reproduction.**

Capitalist expanded reproduction presupposes the accumulation of capital. Since the capital of each subdivision consists of two parts, constant and variable capital, the accumulated part of the surplus-value is divided into these two parts: one part is used for the purchase of additional means of production, the other for the hiring of additional labour-power. From this it follows that the annual product of the first subdivision must contain a surplus over and above the quantity of means of production which is necessary for simple reproduction. In other words, the sum of the variable capital and surplus-value of the first subdivision must be greater than the constant capital of the second subdivision:  $I (v + s)$  must be *greater* than  $II C$ . This is the basic condition of realisation in capitalist expanded reproduction.

Let us examine in a little more detail the conditions of realisation under capitalist expanded reproduction.

Suppose that in the first subdivision the value of the constant capital is 4,000, the value of the variable capital is 1,000, and the surplus-value is 1,000. In the second division, let the value of the constant capital be 1,500, of the variable capital 750, and of the surplus-value 750. On this assumption, the annual social product will consist of the following parts:

I.  $4,000 s + 1,000 v + 1,000 t$  - 6,000

II :  $1500 s + 750 v + 750 t = 3,000$



Let us suppose that in the first subdivision 1 out of a surplus-value of 000,500 is accumulated. In accordance with the organic composition of the capital in the first division (4:1), the accumulated portion of the surplus-value is divided as follows: 400 goes to the increase of the constant capital and 100 to the increase of the variable capital. The additional constant capital (400) is present in the product of the first subdivision itself in the form of means of production. An additional variable capital (100) must be received in exchange from the second subdivision, which must therefore also accumulate. The capitalists of the second division exchange a part of their surplus-value, equal to 100, for means of production and convert these means of production into additional constant capital. Then, according to the organic composition of capital in the second division (2:1), the variable capital in that division must increase by 50. In the second subdivision, therefore, out of a surplus-value of 750, 150 is to be accumulated.

As in simple reproduction, the second division must exchange with the first its constant capital of 1,500. For its part, the first subdivision must exchange with the second subdivision its variable capital, which is equal to 1,000, and the consumable portion of the surplus-value, which is equal to 500.

So, the first unit should exchange:

the part of the product that reproduces the value of the variable capital..... 1 000

A portion of the surplus-value to be accumulated, which is added to the variable capital. 100

the part of the surplus value consumed by the capitalists..... 500

*Total* ..... 1 600

The second unit is to exchange:

constant capital..... 1 500

Part of the surplus-value to be accumulated, which is added to the constant capital 100

*Total* ..... 1 600

An exchange between the two units can take place only if these values are equal. Such are the conditions of realisation under capitalist expanded reproduction.

In expanded reproduction, the sum of the variable capital and surplus-value of the first subdivision must grow faster than the constant capital of the second subdivision, and the constant capital of the first subdivision must still further outstrip the growth of the constant capital of the second subdivision.

Under any system of society, the development of productive forces is expressed in the fact that the share of social labour going to the production of means of production increases in comparison with the share going to the production of consumer goods. Under capitalism, the more rapid growth in the production of means of production as compared with the production of articles of consumption appears in the form of a more rapid growth of constant capital as compared with variable capital, i.e., in the form of an increase in the organic composition of capital. An increase in the organic composition of capital inevitably leads to an increase in unemployment and a decrease in the standard of living of the working class.

The problem of the market. Contradictions of capitalist reproduction. As can be seen from the previous discussion, the realisation of a social product requires certain relations between its individual parts and, consequently, between branches and elements of production. Under capitalism, when production is conducted by isolated producers who are guided by the pursuit of profit and work for a market unknown to them, these relations cannot but be subject to constant violations. Examining the conditions of the normal course of capitalist simple and extended reproduction, Marx points out that they 'turn into just as numerous conditions of the abnormal course of reproduction, into just as numerous possibilities of crises, since equilibrium-given the

spontaneous nature of this production-is itself an accident.”<sup>63</sup> Under the conditions of the anarchy of capitalist production, the realisation of the social product takes place only in the midst of difficulties and constant fluctuations, which become stronger with the growth of capitalism.

Of particular importance is the fact that the expansion of capitalist production and, consequently, the formation of the home market takes place not so much at the expense of consumer goods as at the expense of the means of production. The growth in the production of means of production far outstrips the growth in the production of articles for personal consumption. In the total mass of the output of capitalist production, consumer goods occupy a relatively smaller and smaller place. However, the production of means of production cannot develop completely independently of the production of consumer goods and without any connection with it. Enterprises employing the means of production throw on the market ever-increasing masses of commodities which serve for consumption. Thus, in the final analysis, productive consumption (consumption of means of production) is always linked to, always dependent on, personal consumption. But the volume of personal consumption of the bulk of the population in capitalist society is limited by extremely narrow limits because of the laws of capitalist exploitation, which cause the impoverishment of the working class and the peasantry.

The aim of capitalist production is the extraction of profits. The means to achieve this goal is the expansion of production. In this sense, Marx wrote about capitalism’s characteristic “production for production’s sake,” “accumulation for accumulation’s sake.” But goods are ultimately produced not for the sake of production, but for the satisfaction of people’s needs. The means, the expansion of production, inevitably come into conflict with the aim of

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<sup>63</sup> K. Marx, *Capital*, vol. II, 1953, p. 496.

the capitalists, the extraction of profits. Consequently, capitalism has a deep antagonistic contradiction between production and consumption.

The contradiction between production and consumption inherent in capitalism consists in the fact that national wealth grows side by side with the growth of national poverty, and the productive forces of society grow without a corresponding increase in popular consumption. This contradiction is one of the manifestations of the basic contradiction of capitalism - the contradiction between the social character of production and the private capitalist form of appropriation.

In denouncing the servants of the bourgeoisie who glossed over the deep contradictions of capitalist realisation, Lenin pointed out that "even with the perfectly smooth and proportional reproduction and circulation of all social capital, there is an inevitable contradiction between the growth of production and the limited limits of consumption. In reality, moreover, the process of realisation does not proceed with perfect proportionality, but only in the midst of "difficulties," "vacillations," "crises," and so forth."<sup>64</sup>

A distinction should be made between the domestic market (the sale of goods within a given country) and the foreign market (the sale of goods abroad).

The domestic market appears and expands with the emergence and growth of commodity production, and especially with the development of capitalism, which deepens the social division of labour and dissolves the direct producers into capitalists and workers. As a result of the social division of labour, the number of special branches of production is growing. The development of some industries expands the market for goods produced by other industries, primarily raw materials, machinery, and other means of production. Further, the class stratification of small

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<sup>64</sup> V. I. Lenin, *More on the Question of the Theory of Realisation*, Works, vol. 4, p. 71.

commodity producers, the increase in the number of workers, and the increase in the profits of capitalists lead to an increase in the sale of consumer goods they buy. The degree of development of the home market is the degree of development of capitalism in the country.

The socialisation of labour by capitalism is manifested first of all in the destruction of the former fragmentation of small economic units, which is characteristic of natural economy, and the unification of small local markets into a huge national and then world market.

In considering the process of reproduction and circulation of all social capital, the role of the external market is left aside, since the inclusion of the foreign market does not change the essence of the question. Attracting foreign trade only shifts the issue from one country to several countries, but this does not change the essence of the implementation process at all. This, however, does not mean that the foreign market is not essential for the capitalist countries. In the pursuit of profit, capitalists expand production far beyond the capacity of the domestic market and seek more profitable foreign markets.

The contradictions of capitalist realisation manifest themselves with full force in the periodic economic crises of overproduction.

## BRIEF CONCLUSIONS

*1. The cycles of individual capitals in their totality constitute the movement of social capital. Social capital is the whole mass of individual capitals in their interconnection.*

*2. The total product of capitalist society is divided according to its value into constant capital, variable capital, and surplus value, and according to its natural form, into means of production and articles of consumption. All social*

*production is divided into two subdivisions: the first subdivision is the production of the means of production, and the second subdivision is the production of the means of production. production of consumer goods. The problem of realisation is how to find for each part of the social product in terms of value and material form another part of the product that replaces it on the market.*

*3. In capitalist simple reproduction, the condition of realisation is that the variable capital plus the surplus-value of the first subdivision must be equal to the constant capital of the second subdivision. In capitalist expanded reproduction, the condition of realisation is that the sum of the variable capital and surplus-value of the first subdivision must be greater than the constant capital of the second subdivision. With expanded reproduction, the growth of the production of means of production outstrips the growth of the production of consumer goods.*

*4. In the course of its development, capitalism creates and develops the internal market. The growth of production and the home market under capitalism is due to the means of production rather than to consumer goods. In the process of capitalist reproduction, the disproportionality of production and the contradiction between production and consumption, which are inevitable under capitalism, are revealed: the contradiction between the social character of production and the private capitalist form of appropriation. The contradictions of capitalist reproduction are most clearly manifested in the periodic economic crises of overproduction.*

## CHAPTER XVI. ECONOMIC CRISES

### **The Basis of the Capitalist Crises of Overproduction.**

Since the beginning of the XIX century, since the emergence of large-scale machine industry, the course of capitalist expanded reproduction has been periodically interrupted by economic crises.

Capitalist crises are crises of *overproduction*. The crisis is expressed first of all in the fact that commodities do not find a market, since they are produced more than the main consumers, the masses of the people, whose purchasing power under the domination of capitalist relations of production is limited by extremely narrow limits. "Surplus" goods clutter up warehouses. The capitalists cut production and dismiss workers. Hundreds and thousands of businesses are closing. Unemployment is soaring. Many small producers in town and country are ruined. The lack of marketing of manufactured goods leads to the disruption of trade. Credit ties are disrupted. Capitalists are experiencing an acute shortage of cash for payments. Stock markets crash as stocks, bonds, and other securities plummet. A wave of bankruptcies of industrial enterprises, trading and banking firms is sweeping.

The overproduction of goods in times of crisis is not absolute, but relative. This means that there is a surplus of commodities only in comparison with effective demand, and not at all in comparison with the real needs of society. In times of crisis, the working masses are in dire need of the most basic necessities, their needs are less satisfied than at any other time. Millions of people are starving because "too much" grain has been produced, people are suffering from the cold because "too much" coal has been mined. The

working people are deprived of all means of subsistence precisely because they have produced too much of them. This is the glaring contradiction of the capitalist mode of production, when, in the words of the French utopian socialist Fourier, “excess becomes a source of want and deprivation.”

Upheavals in economic life often occurred under pre-capitalist modes of production as well. But they were caused by some extraordinary natural or social disaster: floods, droughts, bloody wars, or epidemics sometimes devastated entire countries, dooming the population to starvation and extinction. However, the fundamental difference between these economic upheavals and capitalist crises lies in the fact that the hunger and misery caused by these upheavals were the result of the underdevelopment of production, the extreme shortage of products. Under capitalism, however, crises are generated by the growth of production, the miserable standard of living of the masses of the people, by the relative “surplus” of goods produced.

As has been shown above (in Chapter IV), the mere production and circulation of commodities already involves the *possibility* of crises. However, crises become *inevitable* only under capitalism, when production acquires a social character, and the product of the socialised labour of many thousands and millions of workers enters the private *appropriation of the capitalists*. The contradiction between the *social character* of production and the private capitalist form of appropriation of the results of production is the fundamental contradiction of capitalism. This contradiction is *the basis* of economic crises of overproduction. Thus, the inevitability of crises is rooted in the very system of capitalist economy.

The basic contradiction of capitalism manifests itself as the opposition between the organisation of production within individual enterprises and the anarchy of production in society as a whole. In each individual factory, the labour of



the workers is organised and subordinated to the single will of the employer. But in society as a whole, as a result of the dominance of private ownership of the means of production, the anarchy of production reigns, which excludes the planned development of the economy. The expansion of production proceeds unevenly, so that the old proportions between the branches are constantly disturbed, and new proportions are established spontaneously, by the flow of capital from one branch to another. Proportionality between the individual branches is therefore an accident, and constant violations of proportionality are the general rule of capitalist reproduction.

In the pursuit of the greatest profits, the capitalists expand production, improve technology, introduce new machines, and throw huge masses of commodities on the market. In the same direction there is a constant tendency of the rate of profit to fall, due to the growth of the organic composition of capital. Entrepreneurs seek to compensate for the fall in the rate of profit by an increase in the mass of profit by expanding the scale of production, by increasing the quantity of commodities produced. Thus, capitalism is characterised by a tendency towards an expansion of production, towards an enormous increase in the possibilities of production. But as a result of the fall in real wages, the growth of unemployment, and the ruin of the peasantry, the effective demand of the working people is relatively reduced. As a consequence, the expansion of capitalist production inevitably comes up against the narrow limits of consumption by the main masses of the population.

“The basis of the crisis lies in the contradiction between the social character of production and the capitalist form of appropriation of the results of production. An expression of this fundamental contradiction of capitalism is the contradiction between the colossal increase in the production capacity of capitalism, designed to maximize capitalist profit, and the relative reduction in effective

demand on the part of the millions of working people, whose standard of living the capitalists are always trying to keep within the extreme minimum.”<sup>65</sup>

The fundamental contradiction of capitalism comes to the surface in the class antagonism between the proletariat and the bourgeoisie. Capitalism is characterised by a gap between the two most important conditions of production: the means of production, which are concentrated in the hands of the capitalists, and the direct producers, who are deprived of everything but their labour-power. This gap is vividly manifested in crises of overproduction, when a vicious circle is created: on one side there is a surplus of means of production and products, on the other side there is a surplus of labour power, a mass of unemployed, deprived of means of subsistence.

Crises are an inevitable concomitant of the capitalist mode of production. In order to abolish crises, capitalism must be abolished.

Bourgeois economists deny the inevitability of crises under capitalism. They declare crises to be the result of accidental causes, which can be eliminated if the capitalist economic system is preserved. The ultimate cause of crises is proclaimed to be either an accidental disproportion between the branches of production or “under-consumption,” for which such means as the arms race and war are recommended. As a matter of fact, both disproportionate production and “under-consumption” under capitalism are not accidents, but inevitable forms of manifestation of the basic contradiction of capitalism, which cannot be eliminated as long as the bourgeois system exists.

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<sup>65</sup> J. V. Stalin, Political report of the Central Committee to the XVI Congress of the CPSU (b), Works, vol. 12, pp. 243-244.

## **The Cyclical Character of Capitalist Reproduction.**

Capitalist overproduction crises recur at regular intervals, every 8 to 12 years. Partial crises of overproduction that affected individual industries occurred in England even in the late XVIII and early XIX centuries. The first industrial crisis that engulfed the economy of the country as a whole broke out in England in 1825. In 1836, the crisis began in England, and then spread to the United States. The crisis of 1847-1848, which affected the United States and a number of countries on the European continent, was the first world crisis. The crisis of 1857 hit the major countries of Europe and America. It was followed by the crises of 1866, 1873, 1882, and 1890. The most profound of these was the crisis of 1873, which marked the beginning of the transition from pre-monopoly capitalism to monopoly capitalism. In the XX century, crises occurred in 1900-1903 (this crisis began in Russia, where its effect was much stronger than in any other country), in 1907, 1920-1921, 1929-1933, 1937-1938, and 1948-1949.

The period from the beginning of one crisis to the beginning of another crisis is called a cycle. The cycle consists of four phases: crisis, depression, recovery, and recovery. The main phase of the cycle is the crisis, which serves as the starting point of a new cycle.

A *crisis* is a phase of a cycle in which the contradiction between the growth of productive possibilities and the relative reduction of effective demand manifests itself in a violent and destructive form. This phase of the cycle is characterised by an overproduction of goods that cannot be sold, a sharp drop in prices, an acute shortage of means of payment, and a stock market crash that causes mass bankruptcies, a sharp reduction in production, an increase in unemployment, and a fall in wages. The depreciation of

commodities, unemployment, the direct destruction of machinery, equipment and entire enterprises - all this means a huge destruction of the productive forces of society. By ruining and ruining a multitude of enterprises, by destroying a part of the productive forces, the crisis forcibly adjusts, and for a very short time, the scale of production to the size of effective demand. "Crises always represent only a temporary violent resolution of existing contradictions, violent explosions that momentarily restore the disturbed balance".<sup>66</sup>

*Depression* is a phase of a cycle that comes immediately after a crisis. This phase of the cycle is characterised by the fact that industrial production is in a state of stagnation, commodity prices are low, trade is sluggish, and there is an abundance of free money capital. In a period of depression, prerequisites are created for subsequent revival and recovery. Accumulated stocks of goods are partly destroyed, partly sold at reduced prices. Capitalists seek to find a way out of the stagnant state of production by lowering the cost of production. They achieve this goal, first, by intensifying the exploitation of the workers in every possible way, by further lowering wages and increasing the intensity of labour; Secondly, by the re-equipment of enterprises, the renewal of fixed capital, and the introduction of technical improvements designed to make production profitable at the low prices that have been established as a result of the crisis. The renewal of fixed capital gives impetus to the growth of production in a number of industries. Enterprises that manufacture equipment receive orders and, in turn, demand all kinds of raw materials and materials. Gradually, there is a transition from depression to revival.

*Recovery* is the phase of the cycle during which enterprises that survive the crisis recover from shocks and begin to expand production. Gradually, the level of

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<sup>66</sup> K. Marx, *Capital*, vol. III, 1953, p. 259.

production reaches the previous levels, prices rise, and profits rise. Excitement turns into uplift.

Recovery is the phase of the cycle during which production overtakes the highest point reached in the previous cycle, on the eve of the crisis. During the boom, new industrial enterprises, railways, etc. are built. Prices rise, merchants tend to buy as many goods as possible in the expectation of further price increases, and thus push industrialists to expand production even more. Banks are willing to lend money to industrialists and merchants. All this makes it possible to expand the size of production and trade far beyond effective demand. This creates the conditions for another overproduction crisis.

Before the onset of the crisis, production reaches the highest level, but sales opportunities seem even greater. Overproduction already exists, but in a hidden form. Speculation drives up prices and inflates the demand for goods. Surplus goods accumulate. Credit hides overproduction to an even greater extent: banks continue to lend to industry and trade, artificially supporting the expansion of production. When overproduction is at its highest, a crisis breaks out. Then the whole cycle repeats.

The crisis forms the starting point for new large-scale capital investments. In an effort to restore the profitability of their enterprises in the face of a sharp decline in prices, capitalists, along with increasing exploitation of workers, are forced to introduce new machines and machines, new methods of production. There is a massive renewal of fixed capital. In crucial branches of large-scale industry, the life expectancy of fixed assets of production, taking into account not only physical but also moral wear and tear, averages about ten years. This provides the material basis for the periodicity of crises that occur regularly throughout the history of capitalism.

Each crisis prepares the ground for new and even deeper crises, and as capitalism develops, their destructive power and severity increase.

## **Agrarian Crises.**

Capitalist crises of overproduction, by causing unemployment, falling wages, and a reduction in effective demand for agricultural products, inevitably give rise to partial or total overproduction in the field of agriculture. Crises of overproduction in agriculture are called agrarian crises. The inevitability of agrarian crises is due to the same fundamental contradiction of capitalism which is the basis of industrial *crises*.

At the same time, agrarian crises have some peculiarities: they are usually of a longer and more protracted nature than industrial crises.

The agrarian crisis of the last quarter of the XIX century, which engulfed Western European countries, Russia, and then the United States, began in the first half of the 70s and continued in one form or another until the mid-90s of the XIX century. It was caused by the fact that due to the development of maritime transport and the expansion of the railway network, European markets began to receive a large amount of cheaper bread from America, Russia and India. In America, the production of grain was cheaper because of the ploughing of new fertile land and the availability of free land for which absolute rent was not charged. Russia and India were able to export bread to Western Europe at low prices, as Russian and Indian peasants, oppressed by excessive taxes, were forced to sell bread for a song. European tenant capitalists and peasants could not withstand this competition with the high rents inflated by large landowners. After the First World War, with a huge reduction in the population's ability to pay, an acute agrarian crisis broke out in the spring of 1920, which hit extra-European countries (USA, Canada, Argentina, Australia) with

particular force. Agriculture had not yet recovered from this crisis when, at the end of 1928, there were clear signs of a new agrarian crisis that had begun in Canada, the United States, Brazil, and Australia. This crisis has engulfed the main countries of the capitalist world that export raw materials and food. The crisis engulfed all branches of agriculture, intertwined with the industrial crisis of 1929-1933 and lasted until the outbreak of the Second World War.

The protracted nature of agrarian crises can be explained by the following main reasons.

In the first place, the monopoly of private ownership of land compels tenants to pay the rent fixed by the contract in the same amount even during agrarian crises. When the prices of agricultural commodities fall, the rent of land is paid by a further fall in the wages of agricultural labourers, as well as by profits, sometimes even by the advanced capital of the tenants. As a result, it is extremely difficult to get out of the crisis by introducing improved technology and reducing production costs.

Secondly, agriculture under capitalism is a backward branch in comparison with industry. Private ownership of land, the survivals of feudal relations, the necessity of paying absolute and differential rent to landowners—all this hinders the free flow of capital into agriculture and hinders the development of the productive forces. Technology in this industry remains extremely backward. The organic composition of capital in agriculture is lower than in industry; Fixed capital, the mass renewal of which is the material basis for the periodicity of industrial crises, plays a much smaller role in agriculture than in industry.

Thirdly, small commodity producers - peasants - try to maintain the previous volume of production in times of crises in order to hold on to their own or leased plots of land at any cost - at the expense of excessive labour, malnutrition, predatory use of soil and livestock. This further increases the overproduction of agricultural products.

Thus, the general basis of the protracted character of agrarian crises is the monopoly of private ownership of land, the feudal survivals associated with it, and the extreme backwardness of agriculture in the capitalist countries.

The main burden of the agrarian crises falls on the main mass of the peasantry. The agrarian crisis, like any crisis, ruins the masses of small commodity producers; By breaking up the established property relations, it accelerates the disintegration of the peasantry and the development of capitalist relations in agriculture. At the same time, agrarian crises are driving the agriculture of the capitalist countries to direct degradation, causing a return from machines to manual labour, a sharp decrease in the use of artificial fertilizers, a reduction in the sown area, a decline in the level of agricultural technology, and a decrease in the yield of agricultural crops and the productivity of animal husbandry.

### **Crises and Sharpening of the Contradictions of Capitalism.**

Economic crises, being a violent explosion of all the contradictions of the capitalist mode of production, inevitably lead to a further deepening and sharpening of these contradictions.

As a rule, capitalist crises of overproduction have a *general character*. Beginning in any branch of production, they quickly embrace the entire national economy. Originating in one or a few countries, they spread to the entire capitalist world.

Each crisis leads to a sharp reduction in production, a fall in wholesale prices for goods and stock exchange prices, and a decrease in the volume of domestic and foreign trade.



In every crisis, output falls back to the level it was a few years ago. In the XIX century, during crises, the level of economic life of the capitalist countries was thrown back by three to five years, and in the XX century, by decades.

Coal production in the United States fell during the crisis of 1873 by 9.1%, 1882 - by 7.5, 1893 - by 6.4, 1907 - by 13.4, 1920-1921 - by 27.5, 1929-1933 - by 40.9%. Iron output in the United States fell by 27% during the crisis of 1873, 12.5% in 1882, 27.3% in 1893, 38.2% in 1907, 54.8% in 1920-1921, and 79.4% in 1929-1933.

In Germany, the total volume of industrial production fell by 6.1% during the crisis of 1873, 3.4% in 1890, 6.5% in 1907, and 40.6% in 1929-1933.

By the crisis of 1857, the United States was pushed back in coal production for two years, in pig iron production for four years, in exports for two years, and in imports for three years. By the crisis of 1929, the United States was pushed back in coal production for 28 years, in pig iron production-for 36 years, in steel production-for 31 years, in exports-for 35 years, in imports-for 31 years.

The crisis of 1929 threw England back 35 years in coal production, 76 years in pig iron production, 23 years in steel production, and 36 years in foreign trade.

Economic crises vividly demonstrate *the predatory nature of* capitalism. In every crisis, in conditions of extreme destitution, millions of people doomed to poverty and hunger, huge quantities of unmarketable goods are destroyed, such as wheat, potatoes, milk, livestock, cotton. Entire factories, shipyards, blast furnaces are being mothballed or scrapped, crops of grain and industrial crops are being destroyed, and plantations of fruit trees are being cut down.

During the three years of the crisis of 1929-1933, 92 blast furnaces were demolished in the United States, 72 in England, 28 in Germany, and 10 in France. The tonnage of sea vessels

destroyed over the years amounted to more than 6.5 million register tons.

The destructive effect of the agrarian crisis can be seen from the following data. In the U.S., from 1926 to 1937, more than 2 million farms were forcibly sold for debt. Income from agriculture fell from \$6.8 billion in 1929 to \$2.4 billion in 1932, while sales of agricultural machinery and equipment fell from \$458 million to \$65 million a year, or a factor of seven, and the consumption of artificial fertilizers fell by almost half. The U.S. government took all measures to reduce agricultural production. In 7, 1933.10 million acres of cotton crops were destroyed by ploughing, 4.6 million pigs were purchased and destroyed, and wheat was burned in the furnaces of steam locomotives. About 4 million bags of coffee were destroyed in Brazil, and 22,117 head of cattle in Denmark.

Crises bring incalculable misery to the working class, to the main masses of the peasantry, to all working people. They cause *mass unemployment*, which condemns hundreds of thousands and millions of people to forced idleness, poverty and hunger. The capitalists are using unemployment to increase the exploitation of the working class in every possible way, to drastically lower the standard of living of the working people.

The number of workers employed in the US manufacturing industry declined by 11.8% during the 1907 crisis. During the crisis of 1929-1933, the number of workers in the American manufacturing industry declined by 38.8%, and the amount of wages paid fell by 57.7%. According to American statisticians, 43 million man-years were lost to unemployment between 1929 and 1938.

Crises enormously increase the insecurity of the existence of workers, their fear of tomorrow. Having failed to find work for years, the proletarians lose their qualifications; After the end of the crisis, many of them can no longer return to production. The living conditions of

working people are deteriorating to the extreme, and the number of homeless people wandering around the country in search of work is increasing. In years of crisis, the number of suicides of desperate people increases dramatically, begging and crime increase.

Crises lead to an aggravation of the *class contradictions* between the proletariat and the bourgeoisie, between the main masses of the peasantry and the landlords, usurers and kulaks who exploit them. In the conditions of crisis, the working class is deprived of many of the gains it has gained in its long and arduous struggle against the exploiters and the bourgeois state. This shows the workers that the only way to escape poverty and hunger is to overthrow the power of the bourgeoisie, to abolish capitalist wage slavery. The broadest masses of the proletariat, condemned by crises to enormous deprivation, are imbued with class consciousness and revolutionary determination. The inability of the bourgeoisie to control the productive forces of society undermines the faith of the petty-bourgeois strata of the population in the inviolability of the capitalist order. All this leads to an intensification of *the class struggle* in capitalist society.

In times of crisis, the bourgeois state comes to the aid of the capitalists with monetary subsidies, for which the working masses ultimately pay. Using the apparatus of coercion and coercion, the state helps the capitalists to attack the standard of living of the working class and the peasantry. All this intensifies the impoverishment of the working masses. At the same time, crises reveal the complete inability of the bourgeois state to curb the spontaneous laws of capitalism to any extent. In capitalist countries, it is not the state that manages the economy, but, on the contrary, the state itself is at the mercy of capitalist economy, in the subordination of big capital.

Crises are the most obvious indicator of the fact that the productive forces created by capitalism have outgrown the

framework of bourgeois relations of production, as a result of which the latter have become a brake on the further growth of the productive forces.

"The crisis shows that modern society could produce incomparably more products for the improvement of the lives of all working people if the land, factories, machinery, etc., were not available to the working people. have not been captured by a handful of private proprietors extracting millions from the people's misery.<sup>67</sup> Every crisis brings the collapse of the capitalist mode of production closer.

### **The Historical Tendency of the Development of Capitalism. The Proletariat as the Gravedigger of Capitalism.**

After capitalism became the dominant system, the concentration of property in a few hands took gigantic strides. The development of capitalism leads to the ruin of small producers, who fall into the ranks of the army of wage workers. Competition among capitalists is becoming more and more acute, as a result of which one capitalist beats many. The concentration of capital means the concentration of enormous wealth in the hands of an ever narrower circle of people.

In developing large-scale production, capitalism at the same time gives rise to its gravedigger in the person of the working class, which acts as the leader and leader of all the toiling and exploited masses. The development of industry is accompanied by an increase in the number of the proletariat, an increase in its unity, consciousness, and organisation. The proletariat is rising more and more resolutely in the struggle against capital. The development of capitalist society, accompanied by the sharpening of its inherent antagonistic

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<sup>67</sup> V. I. Lenin, *Lessons of the Crisis*, Works, vol. 5, p. 76.

contradictions and the intensification of the class struggle, prepares the necessary prerequisites for the victory of the proletariat over the bourgeoisie.

The theoretical expression of the fundamental interests of the working class is *Marxism, scientific socialism*, which is an integral and harmonious world view. Scientific socialism teaches the proletariat to unite for the class struggle against the bourgeoisie. The class interests of the proletariat coincide with the interests of the progressive development of human society, they merge with the interests of the overwhelming majority of society, for the revolution of the proletariat does not mean the abolition of this or that form of exploitation, but the abolition of all exploitation in general.

If, at the dawn of capitalism, a few usurpers, in the persons of capitalists and landlords, expropriated the masses of the people, the development of capitalism leads to the inevitability of the expropriation of a few usurpers by the masses of the people. This task is fulfilled by the socialist revolution, which socializes the means of production and liquidates capitalism with its crises, unemployment and misery of the masses.

“The monopoly of capital becomes the fetters of the mode of production which has grown under it and under it. The centralisation of the means of production and the socialisation of labour reach a point where they become incompatible with their capitalist shell. It explodes. The hour of capitalist private property is striking. The expropriators are being expropriated.”<sup>68</sup>

Such is the *historical tendency* of the development of the capitalist mode of production.

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<sup>68</sup> K. Marx, *Capital*, vol. I, 1953, p. 766.

## BRIEF CONCLUSIONS

1. Economic crises are crises of overproduction. The basis of crises is the contradiction between the social character of production and the private capitalist form of appropriation of the products of labour. The forms of expression of this contradiction are, first, the opposition between the organisation of production within individual capitalist enterprises and the anarchy of production in society as a whole, and, secondly, the contradiction between the enormous increase in the productive possibilities of capitalism and the relative reduction of effective demand on the part of the toiling masses. The basic contradiction of capitalism manifests itself in the class antagonism between the proletariat and the bourgeoisie.

2. The period from the beginning of one crisis to the beginning of another crisis is called a cycle. The cycle consists of the following phases: crisis, depression, revival, recovery. The material basis of the periodicity of capitalist crises is the periodic renewal of fixed capital. Agricultural crises are intertwined with industrial crises, which are characterised by a protracted character because of the monopoly of private ownership of land and the extreme backwardness of agriculture under capitalism.

3. Capitalist crises mean the gigantic destruction of the productive forces. They bring incalculable misery to the working masses. In crises the historically limited character of the bourgeois system and the inability of capitalism to continue to control the productive forces that have grown in its depths are most clearly revealed. In order to abolish crises, capitalism must be abolished.

4. The historical tendency of the development of capitalism consists in the fact that, on the one hand, it develops the productive forces and socializes production, thereby creating the material prerequisites for socialism, and, on the other hand, it gives rise to its own gravedigger

*in the person of the proletariat, which organizes and leads the revolutionary struggle of all working people for emancipation from the yoke of capital.*

## **B. MONOPOLY CAPITALISM – IMPERIALISM**



## CHAPTER XVII. IMPERIALISM–THE HIGHEST STAGE OF CAPITALISM. THE BASIC ECONOMIC LAW OF MONOPOLY CAPITALISM

### Transition to imperialism.

Pre-monopoly capitalism, dominated by free competition, reached its highest point of development by the 60s and 70s of the last century. During the last third of the nineteenth century, the transition from pre-monopoly capitalism to monopoly capitalism took place. At the end of the XIX - beginning of the XX century, monopoly capitalism finally took shape.

Monopoly capitalism, or *imperialism*, is the highest and last stage of *capitalism*, the main distinguishing feature of which is the substitution of monopolies for free competition.

The transition from pre-monopoly capitalism to monopoly capitalism - imperialism - was prepared by the entire process of development of the productive forces and production relations of bourgeois society.

The last third of the 19th century was marked by major technical shifts, the growth of industry and its concentration. In metallurgy, new methods of steel smelting (Bessemer, Thomas, and open-hearth steel) have been widely used. The rapid spread of new types of engines—dynamo, internal combustion engine, steam turbine, electric motor—accelerated the development of industry and transportation. Advances in science and technology have opened up the possibility of producing electrical energy on a massive scale in thermal and later in large hydroelectric power plants. The use of electric energy has led to the creation of a number of new branches of the chemical industry, metallurgy of non-

ferrous and light metals. The use of chemical methods in many industries has expanded. The improvement of internal combustion engines contributed to the emergence of road transport, and then aviation.

As early as the middle of the nineteenth century, light industry occupied a predominant place in the industry of the capitalist countries. Numerous enterprises of comparatively small size belonged to individual owners, and the share of joint-stock companies was comparatively small. The economic crisis of 1873 led to the demise of many such enterprises and gave a strong impetus to the concentration and centralisation of capital. The predominant role in the industry of the main capitalist countries was played by heavy industry, primarily metallurgy and machine building, as well as the mining industry, the development of which required enormous capital. The wide spread of joint-stock companies further intensified the centralisation of capital.

The volume of world industrial output tripled from 1870 to 1900. World steel production increased from 0.5 million tons in 1870 to 28 million tons in 1900, and world iron production increased from 12.2 million tons to 40.7 million tons. The development of energy, metallurgy and chemistry led to an increase in world coal production (from 161,218 million tons in 1870 to 769 million tons in 1900) and oil (from 0.8 million tons to 20 million tons). The growth of industrial production was closely related to the development of railway transport. In 1835, 10 years after the construction of the first railway, there were 2.4 thousand kilometres of railway tracks all over the world, in 1870 - over 200 thousand, and in 1900 - 790 thousand kilometres. Sea routes began to be served by large ships driven by steam engines and internal combustion engines.

During the XIX century, the capitalist mode of production spread rapidly across the globe. At the beginning of the 70s, the oldest bourgeois country, England, produced more fabrics, smelted more iron, and produced more coal than the United States, Germany, France, Italy, Russia, and

Japan combined. England was the leader in world industrial production and had an unchallenged monopoly on the world market. By the end of the XIX century, the situation had changed dramatically. In the young capitalist countries, large-scale industry of their own has grown. In terms of industrial production, the United States of America ranked first in the world, and Germany ranked first in Europe. Despite the obstacles created by the thoroughly rotten tsarist regime, Russia moved rapidly along the path of industrial development. As a result of the industrial growth of the young capitalist countries, Britain lost its industrial primacy and monopoly position on the world market.

In the course of the transition to imperialism, the contradictions between the productive forces and the relations of production of capitalism began to assume ever sharper forms. The subordination of production to the predatory goals of the capitalists' pursuit of the highest profit has created numerous obstacles to the development of productive forces and technical progress. Economic crises of overproduction began to recur more frequently, their destructive power increased, and the army of the unemployed grew. Along with the increase in poverty and destitution of the toiling masses of town and country, there was an unprecedented increase in the wealth concentrated in the hands of a handful of exploiters. The sharpening of the irreconcilable class contradictions between the bourgeoisie and the proletariat led to the intensification of the economic and political struggle of the working class.

In the period of transition to imperialism, the major capitalist powers of Europe and America seized vast colonial possessions by force and deception. A small handful of capitalistically developed countries have turned the majority of the world's population into colonial slaves, hating their oppressors and fighting them. Colonial conquests have enormously expanded the field of capitalist exploitation; The degree of exploitation of the toiling masses steadily

increased. The extreme sharpening of the contradictions of capitalism has found expression in the devastating imperialist wars, which have claimed many human lives and destroyed enormous material values.

The historical merit of the Marxist study of imperialism as the highest and at the same time the last stage in the development of capitalism, as the eve of the socialist revolution of the proletariat, belongs to V. I. Lenin. In his classic work *Imperialism as the Highest Stage of Capitalism* and in a number of other works, written mainly during the First World War, Lenin summed up the development of world capitalism in the half century that had elapsed since the publication of Marx's *Capital*. Basing himself on the laws of the origin, development, and decline of capitalism discovered by Marx and Engels, Lenin gave an exhaustive scientific analysis of the economic and political essence of imperialism, its laws and insoluble contradictions.

According to Lenin's classical definition, the main economic features of imperialism are: "(1) the concentration of production and capital, which has reached such a high stage of development that it has created monopolies that play a decisive role in economic life; (2) the merger of bank capital with industrial capital and the creation, on the basis of this "finance capital", of a financial oligarchy; (3) the export of capital, in contrast to the export of goods, becomes particularly important; 4) international monopolistic unions of capitalists are formed, dividing the world, and 5) the territorial division of the earth by the major capitalist powers is completed".<sup>69</sup>

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<sup>69</sup> V. I. Lenin, *Imperialism as the Highest Stage of Capitalism*, Works, vol. 22, p. 253.

## **Concentration of Production and Monopoly. Monopolies and Competition.**

In the pre-monopoly period, under the rule of free competition, the operation of the law of concentration and centralisation of capital inevitably led to the victory of large and large enterprises, in comparison with which small and medium-sized enterprises play an increasingly subordinate role. In turn, the concentration of production prepared the way for the transition from the domination of free competition to the domination of monopolies.

In Germany, enterprises with more than 50 employees accounted for 22% of all workers and employees in 1882, 30% in 1895, 37% in 1907, 47.2% in 1925, and 49.9% in 1939. Share of the largest enterprises (with more than a thousand employees) in the whole industry, it grew from 1907 to 1925: in terms of the number of employees - from 9.6 to 13.3%, in terms of engine power - from 32 to 41.1%.

In the United States of America, in 1904, the largest enterprises with a production value of a million dollars or more accounted for 0.9% of the total number of enterprises; these enterprises employed 25.6% of the total number of workers, and they accounted for 38% of the total gross output of industry. In 1909, the largest enterprises, accounting for 1.1% of the total number of enterprises, accounted for 30.5% of all employed workers and accounted for 43.8% of the total gross industrial output. In 1939, the largest enterprises, accounting for 5.2% of the total number of enterprises, concentrated 55% of all employed workers and 67.5% of all gross industrial output.

The Russian industry was characterised by a high degree of concentration. In Russia in 1879, large enterprises (with more than 100 workers) accounted for 4.4% of all enterprises and concentrated 54.8% of the total amount of production. In 1903, 76.6% of all industrial workers were already concentrated in large enterprises,

and they provided the overwhelming majority of industrial output.

The concentration of production occurs most rapidly in heavy industry and in new branches of industry (chemical, electrical, automobile, etc.), lagging behind in light industry, in which in all capitalist countries there are many small and medium-sized enterprises.

One of the forms of concentration of production is combination, i.e., the combination in one enterprise of different types of production, which are either successive stages of processing raw materials (for example, metallurgical plants that combine ore mining, iron and steel smelting, and the production of rolled products) or play an auxiliary role in relation to one another (for example, the use of production waste). Combining gives large enterprises an even greater advantage in the competition.

At a certain stage of its development, the concentration of production brings it very close to monopoly. Large enterprises require huge amounts of profit in order to withstand fierce competition with similar giants and to be able to further expand production, and high profits are ensured only by monopolistic domination of the market. On the other hand, it is easier for a few dozen giant enterprises to come to an agreement among themselves than for hundreds and thousands of small enterprises. Thus, free competition is replaced by monopoly. This is the *economic* essence of imperialism.

A *monopoly* is an agreement, alliance, or association of capitalists who concentrate in their hands the production and sale of a large part of the output of one or more branches in order to set high prices for commodities and obtain monopolistically high profits.

The simplest forms of monopoly are short-term sales price agreements. They go by various names: conventions, corners, rings, etc. The more developed forms of monopoly are cartels,

syndicates, trusts, and concerns. A *cartel* is a monopolistic union, the members of which agree on the terms of sale, the terms of payment, divide the markets among themselves, determine the quantity of goods produced, and set prices. The quantity of goods that each cartel member is entitled to produce and sell is called a quota; a fine is paid to the cartel treasury for violating the *quota*. A *syndicate* is a monopolistic organisation in which the sale of goods, and sometimes the purchase of raw materials, is carried out by a common office. A *trust* is a monopoly in which the ownership of all enterprises is combined, and their owners become shareholders who make a profit according to the number of shares or shares they own. At the head of the trust is a board which directs all production, sales and finances of formerly independent enterprises. Trusts are often part of larger alliances - concerns. A *concern* is an association of a number of enterprises in various branches of industry, trading firms, banks, transport and insurance companies on the basis of a common financial dependence on a definite group of the largest capitalists.

Monopolies occupy the commanding heights in the economies of the capitalist countries. They embraced heavy industry, as well as many branches of light industry, railway and water transport, banks, domestic and foreign trade, and established their own oppression over agriculture.

The iron and steel industry of *the United States of America* is dominated by eight monopolies, which in 1952 controlled 84 per cent of the country's total steel production capacity; of these, the two largest, the American Steel Trust and the Bethlehem Steel Corporation, had 51% of the total production capacity. The oldest monopoly in the United States is the Standard Oil Trust. In the auto industry, three firms are crucial: General Motors, Ford, and Chrysler. The electrical industry is dominated by two firms: General Electric and Westinghouse. The chemical industry is controlled by the Dupont de Nemours concern, and the aluminium industry is controlled by the Mellon concern.

In *England*, the role of monopolistic associations increased especially after the First World War, when cartel associations arose in the textile and coal industries, in the iron and steel industry, and in a number of new branches of industry. The English Chemical Trust controls about nine-tenths of all basic chemical production, about two-fifths of all dyestuff production, and nearly all nitrogen production in the country. It is closely connected with the most important branches of British industry, and especially with the war concerns.

In Germany, cartels have become widespread since the end of the last century. During the period between the two world wars, the country's economy was dominated by the Steel Trust ('Vereinigte Stahlwerke'), which had about 200 thousand workers and employees, the Chemical Trust ('Interessen-Gemeinschaft Farbenindustri') with 100 thousand workers and employees, the monopolies of the coal industry, and the cannon concern Krupp, electrical concerns 'General Electricity Company' and 'Siemens'.

In *France*, in *Japan*, and even in such small countries as *Belgium*, *Sweden*, and *Switzerland*, monopolistic organisations occupy the commanding heights of industry.

In *Russia*, the large monopolies embraced primarily the principal branches of heavy industry. Founded in 1902, the Prodamet syndicate (an association for the sale of products of metallurgical enterprises) controlled the sale of more than four-fifths of ferrous metal. In 1904, the Prodvagon syndicate was organised, which almost completely monopolised the production and sale of wagons. The same syndicate united locomotive factories. The Produgol Syndicate was established in 1904 by the largest coal enterprises of Donbas, owned by Franco-Belgian capital; it covered three-quarters of all coal production in the Donbas.

Bourgeois economists, trying to embellish modern capitalism, assert that the spread of monopolies leads to the cure of the bourgeois system of such evils as competition, anarchy of production, and crises. As a matter of fact, imperialism not only fails to eliminate competition, the



anarchy of production and crises, but it further exacerbates all the contradictions of capitalism.

Lenin pointed out that imperialism could not reconstruct capitalism from the bottom to the top. With the dominant role of the monopolies in all capitalist countries, numerous medium and small enterprises and masses of small producers—peasants and artisans—remain.

The monopoly created in certain branches of industry intensifies the chaotic nature of capitalist production as a whole. Competition is not only not being abolished, but is taking on even more acute forms.

First, competition does not stop *within* monopolies. Members of syndicates and cartels compete among themselves for the most profitable markets, for a larger share (quota) of production and sales. In trusts and concerns, there is a struggle for leading positions, for controlling shares, for the distribution of profits.

Secondly, competition is between monopolies, both between monopolies of the same industry and between *monopolies* of different industries that supply each other with goods (e.g., steel and automobile trusts) or produce goods that can replace each other (coal, oil, electricity). Under conditions of the limited capacity of the domestic market, monopolies producing consumer goods are engaged in a fierce struggle for the sale of their goods.

Thirdly, competition takes place *between monopolies and non-monopolised enterprises*. *Monopolised* industries find themselves in a privileged position in relation to other industries. The monopolies take all measures to stifle “extraneous” and “wild” enterprises which are not members of monopolistic associations.

“Monopolies, growing out of free competition, do not eliminate it, but exist above it and next to it, thus generating a number of particularly sharp and steep

contradictions, frictions, conflicts.”<sup>70</sup> The dominance of monopolies gives competition a particularly destructive and predatory character. Monopolies use all possible methods of direct violence, bribery and blackmail, and resort to complex financial fraud.

The domination of the monopolies means a further deepening of the basic contradiction of capitalism - the contradiction between the social character of production and the private capitalist form of appropriation, as a result of which the crises become even more devastating.

### **Concentration and Monopolies in Banking. New Role of Banks.**

The real power and significance of modern monopolies cannot be fully understood without taking into account the role of banks. In banking, as in industry, there is a concentration of capital and a transition from free competition to monopoly. Initially, banks served mainly as intermediaries in payments. With the development of capitalism, the activity of banks as merchants of capital expanded. The accumulation of capital and the concentration of production in industry led to the concentration of huge free funds in banks, looking for profitable applications. The share of large banks in the total mass of bank turnover has steadily increased.

In the 33 years leading up to the First World War (1880-1913), deposits in the banking systems of the four largest capitalist States - the United States of America, Germany, England, and France - alone increased by 127 billion marks. Since then, the growth of deposits has been even faster; in a

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<sup>70</sup> V. I. Lenin, *Imperialism as the Highest Stage of Capitalism*, Works, vol. 22, p. 253.

period twice as short - from 1913 to 1928 - deposits in these countries have increased by 183 billion marks.

In the United States of America, the top 20 banks accounted for 15% of total deposits in all U.S. banks in 1900, 19% in 1929, 27% in 1939, and 29% in 1952. In England, the sum of the balance sheets of the five largest banks was 28% in 1900, 37% in 1916, 73% in 1929, and 79% in 1952 of the total balance sheets of all English deposit banks. In France, six deposit banks accounted for 66% of total deposits in all French banks in 1952. In Germany, on the eve of the First World War, about half of the amount of deposits available in all German banks was concentrated in large Berlin banks, and in 1929-1932 —two-thirds.

Concentration in banking, as well as in industry, leads to monopoly. The largest banks, by buying up shares, granting credit, etc., subjugate the small ones. Having seized a monopoly position, the big banks conclude agreements among themselves on the division of spheres of influence. Monopolistic unions of banks are formed. Each such union commands dozens, sometimes hundreds, of smaller banks, which in effect become branches of the larger ones. Through a developed network of branches, large banks collect funds from many enterprises in their cash desks. Almost all the money capital of the capitalist class and the savings of other strata of the population fall into the hands of small groups of banking tycoons.

The concentration of industry and the formation of banking monopolies lead to a significant change in the relationship between banks and industry. With the increase in the size of enterprises, large long-term loans granted by banks to industrial capitalists become more and more important. The growth of the number of deposits at the disposal of banks opens up wide opportunities for such long-term investment of bank funds in industry. The most common form of placing bank funds in industry is the purchase of shares in certain enterprises. Banks promote the formation of joint-stock enterprises by undertaking the reorganisation of

the enterprises of individual capitalists into joint-stock companies and the creation of new joint-stock companies (founding). The sale and purchase of shares is increasingly carried out by/through banks.

From humble intermediaries, banks are turning into all-powerful monopolists of the money market. The interests of banks and industrial enterprises are becoming more and more closely intertwined. When a bank finances several large enterprises in a particular industry, it is interested in a monopolistic agreement between them and promotes such an agreement. In this way, the banks strengthen and accelerate the process of concentration of capital and the formation of monopolies many times over.

### **Financial Capital and Financial Oligarchy.**

As a result of the fact that banks become co-owners of industrial, commercial, and transport enterprises by purchasing their shares and bonds, and industrial monopolies, in turn, own shares in banks associated with them, there is an interweaving of monopolistic banking and industrial capital, and a new type of capital arises—finance capital. *Finance* capital is the combined capital of the banking and industrial monopolies. The epoch of imperialism is the epoch of finance capital.

In defining finance capital, Lenin emphasised three crucial points: “Concentration of production; the monopolies that grow out of it; The merger or merging of banks with industry is the history of the origin of finance capital and the content of this concept.”<sup>71</sup>

The coalescence of banking capital with industrial capital is clearly manifested in the personal union of the leaders of

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<sup>71</sup> 1 V. I. Lenin, *Imperialism as the Highest Stage of Capitalism*, Works, vol. 22, p. 214.

the banking and industrial monopolies. The same persons head the largest monopolistic associations in banking, industry, commerce, and other branches of capitalist economy.

*In Germany* before the First World War, the six largest banks in Berlin had protégés as directors of 344 industrial enterprises and as board members in 407 more, for a total of 751 companies. On the other hand, the governing bodies of these six banks included 51 major industrialists. Subsequently, this personal union was further developed. In 1932, the governing bodies of Berlin's three major banks included 70 of the largest representatives of industry. In the *United States of America* in 1950, a small group of 400 industrialists and bankers held one-third of the 3,705 directorships in the 250 largest corporations (joint-stock companies), which owned 42% of the country's total capital.

In every capitalist country, small groups of the largest bankers and monopolistic industrialists hold in their hands all the vital branches of the economy, disposing of the overwhelming mass of social wealth. The domination of capitalist monopolies inevitably becomes the domination of the financial oligarchy (the Greek word "*oligarchy*" literally means "the rule of the few"). Imperialism is characterised by the omnipotence of monopolistic trusts and syndicates, banks and financial oligarchies in the industrial countries.

The domination of the financial oligarchy in the economic sphere is exercised primarily through the so-called "participatory system". It consists in the fact that a large financial businessman or a group of businessmen holds in his hands the main joint-stock company (the "mother company"), which heads the concern; This company, in turn, owns controlling stakes, and dominates its dependent "subsidiaries"; Through this system, the financial tycoons are able to dispose of huge sums of other people's capital.

The eight largest financial groups in the United States—Morgan, Rockefeller, Kuhn-Loeb, Mellon, Dupont, Chicago, Cleveland, and Boston—dominate the entire economy through a wide-ranging system of participation. Morgan's sphere of influence by 1948 included banks and corporations with a total capital of \$ 55 billion, Rockefeller - \$ 26.7 billion, Dupont - \$ 6.5 billion, Mellon - \$ 6 billion.

The financial oligarchy, which enjoys a virtual monopoly, receives enormous and ever-growing masses of profits from its founding (i.e., the creation of joint-stock companies), from the issue of shares and bonds, from the placement of state loans, and from lucrative state orders. Financial capital, concentrated in a few hands, collects an ever-increasing tribute from society.

## Export of Capital.

For pre-monopoly capitalism, with the domination of free competition, the export of commodities was typical. For imperialist capitalism, with the domination of monopolies, the export of *capital* has become typical.

At the turn of the XX century, in the richest countries, where capital accumulation had reached enormous proportions, there was a huge “surplus of capital.”

Capital is “surplus” mainly for two reasons. In the first place, the miserable standard of living of the masses puts obstacles in the way of the further growth of production. Secondly, agriculture is lagging behind industry and the uneven development of various sectors of the economy in general. If capitalism could raise agriculture, raise the standard of living of the working masses, there could be no question of a “surplus of capital.” But then capitalism would not be capitalism, for both the unevenness of development and the half-starved standard of living of the masses of the

population are the fundamental conditions and prerequisites of this mode of production. The surplus of capital in the capitalistically developed countries is thus relative. "The necessity of exporting capital is created by the fact that in a few countries capitalism is 'overripe', and capital lacks (in view of the underdevelopment of agriculture and the poverty of the masses) the field of "profitable" premises.<sup>72</sup> In pursuit of maximum profits, "surplus" capital rushes abroad. Capital is exported mainly to backward countries, where capital is scarce, wages are low, raw materials are cheap, and the price of land is comparatively low. In these countries, monopoly capital has the opportunity to make and does receive enormous profits.

Along with the backward countries, capital is also exported to the industrialised countries. This takes place in a period of particularly rapid development of such countries, which necessitates an influx of capital from outside (for example, the United States before the First World War), or in a situation of their weakening caused by the war (Germany after the First World War, the Western European capitalist countries after the Second World War).

The export of capital takes place in two principal forms: in the form of loan capital and in the form of productive capital. The export of loan capital takes place when loans are granted to governments, cities, and banks of other countries. The export of productive capital is carried out through the creation of industrial enterprises abroad, concessions, the construction of railways, and the purchase for a pittance of existing enterprises in weakened countries (for example, as a result of war).

Bourgeois economists and politicians portray the export of capital as "aid" and "beneficence" allegedly rendered by the developed capitalist countries to backward peoples. As a matter of fact, the export of capital, while accelerating the

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<sup>72</sup> V. I. Lenin, *Imperialism as the Highest Stage of Capitalism*, Works, vol. 22, p. 229.

development of capitalist relations in the backward countries, at the same time leads to the all-round enslavement and plundering of these countries by foreign monopolies. The export of capital is closely connected with the growth of the export of goods. Foreign monopolies seize markets and sources of raw materials in debtor countries. Thus, the export of capital is one of the foundations of the system of imperialist oppression, in which a few rich usurer countries exploit most of the world. The world is divided into a handful of usurer states and a vast majority of debtor states.

The export of capital has serious consequences for the countries that export capital. On the one hand, these countries are multiplying their wealth and strengthening their positions in the world market. They receive a constant influx of surplus value from the outside in the form of interest on loans or profits from foreign enterprises. On the other hand, there is often stagnation in the country's own industrial development as it exports capital. One of the important results of the export of capital is the growth of rivalry between the powers and the struggle for the most profitable spheres of capital investment.

Before the First World War, the main countries exporting capital were England, France and Germany. Their capital investments abroad amounted to 175–200 billion francs: England—75–100 billion, France—60 billion, Germany—44 billion francs. The export of capital from the United States has not yet played a major role, amounting to less than 10 billion francs. After the war of 1914–1918, there have been major changes in world capital exports. Germany lost its capital abroad. Foreign capital investments from England and France decreased significantly, and the export of capital from the United States increased greatly. In 1929, the United States almost equalled England in terms of the size of its foreign investments. After the Second World War, the export of capital from the United States increased even more.



## **The Economic Division of the World Between the Capitalist unions. International Monopolies.**

With the growth of the export of capital, with the expansion of foreign connections and the “spheres of influence” of the largest monopolies, conditions are created for the division of the world market among them. International monopolies are being formed.

International monopolies are agreements between the largest *monopolies* of different countries on the division of markets, price policy, and the size of production. The formation of international monopolies signifies a new stage of concentration of production and capital, incomparably higher than the previous ones.

The advocates of the international monopolies try to present them as an instrument of peace, asserting that the international agreements of the monopolists can peacefully settle the contradictions that arise between the imperialist groups and countries. Such statements have nothing to do with reality. In fact, the economic division of the world by international monopolies depends on the power of the parties, while the strength of individual monopolistic groups changes. Each of them is incessantly struggling to increase its share, to expand the sphere of monopoly exploitation. Changes in the balance of power inevitably entail an intensification of the struggle for the redistribution of markets and an aggravation of contradictions between various groups and the states that support them. The international agreements of the monopolists are fragile and fraught with the source of inevitable clashes.

International monopolies began to emerge in the 60-80s of the XIX century. By the end of the last century, their total number did not exceed 40. On the eve of the First World War,

there were about 100 international cartels in the whole world, and before the Second World War, their number exceeded 300.

Even before the First World War, the oil market was effectively divided between the American Standard Oil Trust, which was in the hands of Rockefeller, and the Royal-Dutch-Shell concern, with the predominant influence of British capital. The market for electrical products was divided between two monopolistic firms: the German General Electric Company and the American General Electric Corporation, controlled by the Morgan Group.

International monopolistic agreements have even covered areas such as arms production. The largest armament manufacturers - Armstrong-Vickers in England, Schneider-Creusot in France, Krupp in Germany, Bofors in Sweden - have been connected by many threads for a long time.

International monopolies played a major role in the preparation of World War II. The major monopolies of the United States, Great Britain, and France, bound by cartel agreements with the German trusts, inspired and directed the policy of the ruling circles of these countries, the policy of encouraging and inciting Hitlerite aggression, which led to war.

## **Completion of the Territorial Division of the World Between the Great Powers and the Struggle for its Redivision.**

Side by side with the economic division of the world between the capitalist unions and in connection with it, there is a territorial division of the world among the bourgeois states, a struggle for colonies, a struggle for the seizure of foreign lands.

*Colonies* are countries that have been deprived of state independence and are part of the possessions of the imperialist metropolitan states. In the epoch of imperialism, there are also various types of dependent countries, semi-colonies. *Semi-colonies* are countries that are formally

independent, but in fact are politically and economically dependent on the imperialist states.

The defenders of the bourgeoisie portray the imperialist domination of the colonies as a “civilizing mission” with the alleged aim of leading the backward peoples to the path of progress and independent development. As a matter of fact, imperialism condemns the colonial and dependent countries to economic backwardness, and hundreds of millions of the population of these countries to unprecedented oppression and bondage, lawlessness and poverty, hunger and ignorance. The seizure of colonies by the imperialist powers is leading to an unprecedented intensification of national oppression and racial discrimination. According to Lenin’s characterisation, capitalism was transformed from the liberator of nations, as it was in the period of the struggle against feudalism, into a monstrous oppressor of nations at the stage of imperialism. Imperialism is a world-wide system of financial enslavement and colonial oppression by a handful of capitalistically developed countries of the vast majority of the world’s population.

Even in the middle of the XVIII century, England enslaved India - a country with the richest natural resources and a population that is many times larger than the population of the metropolis. In the mid-XIX century, the United States of America seized vast territories from neighbouring Mexico, and in the following decades established its dominance over a number of Latin American countries.

In the 60s and 70s, the colonial possessions of European countries still occupied a relatively small part of the overseas lands. In 1876, only one-tenth of Africa was occupied by European colonies. About half of the Asian continent and the islands of the Pacific Ocean (Polynesia) have not yet been seized by the capitalist states.

In the last quarter of the XIX century, the world map underwent fundamental changes. Following the oldest colonial Power, Britain, all the developed capitalist countries entered the path of territorial conquest. By the end of the XIX century,

France had become a major colonial power with an area of 3.7 million square miles. Germany captured a million square miles of territory with 14.7 million inhabitants, Belgium-900 thousand square miles with 30 million inhabitants, the United States captured the most important stronghold in the Pacific - the Philippine Islands, as well as Cuba, Puerto Rico, Guam, Hawaii, and the island of Samoa, and established its de facto domination over a number of countries in Central and South America. America.

From 1876 to 1914, the so-called “great powers” seized about 25 million square kilometres of territory, which is one and a half times the area of the metropolises. A number of countries were placed in conditions of semi-colonial dependence on the imperialist states: China, with a population of almost one-fourth of all mankind, as well as Turkey and Persia (Iran). By the beginning of the First World War, more than half of humanity was under the rule of colonial powers.

The imperialists establish and maintain their authority over the colonies by means of deception and violence, using the superiority of their military technology. The history of colonial policy is an uninterrupted chain of wars of conquest and punitive expeditions against enslaved peoples, as well as bloody conflicts between the countries that possess colonies. Lenin called the war of the United States against Spain in 1898 the first war of the imperialist type, which marked the beginning of the epoch of imperialist wars. The rebellion of the Filipino people against the invaders was brutally suppressed by American troops.

England, which created the largest colonial empire, for more than two centuries waged continuous wars of extermination against the populations of the conquered countries of Asia and Africa. The history of colonial conquests by Germany, France, Japan, Italy and other countries is full of cruelties.

By the beginning of the XX century, the division of the world was complete. The colonial policy of the capitalist countries has led to the seizure of all land not occupied by the imperialists. There is no longer any “free” land left, and

a situation has been created in which each new seizure presupposes the seizure of territory from its owner. The completion of the division of the world put on the agenda the struggle for its redivision. The struggle for the *redivision* of an already divided world is one of the main distinguishing features of monopoly capitalism. This struggle ultimately results in a struggle for world domination and inevitably leads to imperialist wars on a world scale.

Imperialist wars and the arms race are causing enormous hardships to the peoples of all capitalist countries and are costing millions of human lives. At the same time, wars and the militarisation of the economy are a source of income for monopolies, giving them particularly high profits.

### **The Basic Economic Law of Monopoly Capitalism.**

As has already been said, the economic essence of imperialism consists in the substitution of monopolies for free competition. In fixing monopoly prices, monopolies aim at obtaining monopolistically high profits, which are significantly higher than average profits, in Lenin's definition. The acquisition of monopolistically high profits by the monopolies stems from the very essence of imperialism and is ensured by the unprecedented intensification of exploitation by the monopolies of the working class, the robbery of the peasantry and other small commodity producers, the export of capital to backward countries and the sucking of all the vital juices out of these countries, colonial seizures, imperialist wars, which are a gold mine for the monopolies. In Lenin's works, devoted to the disclosure of the economic and political essence of imperialism, the basic principles of the basic economic law of modern

capitalism are given. On the basis of Lenin's premise, Stalin formulated the basic economic law of modern capitalism.

The main features and requirements of the basic economic law of monopoly capitalism are as follows: "ensuring the maximum capitalist profit by exploiting, ruining and impoverishing the majority of the population of a given country, by enslaving and systematically robbing the peoples of other countries, especially backward countries, and finally by wars and militarisation of the national economy, used to ensure the highest profits".<sup>73</sup>

Thus, the basic economic law of capitalism - the law of surplus value - is further developed and concretised in the period of imperialism. Whereas under pre-monopoly capitalism the dominance of free competition led to the equalisation of the rate of profit of individual capitalists, under imperialism the monopolies secure for themselves monopolistically high, maximum profits. It is the maximum profit that is the engine of monopoly capitalism.

The objective conditions for obtaining maximum profits are created by the establishment of the domination of monopolies in various branches of production. At the stage of imperialism, the concentration and centralisation of capital reach their highest degree. As a result, the expansion of production requires huge capital investments. On the other hand, in the period of monopoly capitalism there is a fierce competition between gigantic enterprises. In this struggle, the strongest monopolies, which have the largest capital and receive the maximum profits, win.

At the expense of maximum profits, the monopolies are able to carry out expanded reproduction and ensure their domination in the capitalist world. The monopolies' pursuit of maximum profit leads to an extreme aggravation of all the contradictions of capitalism.

The general basis of the maximum profit of the capitalist monopolies, as of all capitalist profit, is the surplus-value

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<sup>73</sup> J. V. Stalin, *Economic Problems of Socialism in the USSR*, p. 38.

squeezed out of the workers by exploiting them in the process of production. The exploitation of the working class is increased to an extreme degree by the monopolies. Through the use of all sorts of sweatshop systems of organisation and remuneration of labour, a continuous, exhausting intensification of labour is achieved, which means, first of all, an enormous increase in the rate and mass of surplus value squeezed out of the workers. Further, the intensification of labour leads to the fact that many workers become superfluous and fall into the ranks of the army of the unemployed, without any hope of returning to the process of production. All workers for whom the excessive acceleration of production processes is unbearable are also thrown out of the enterprises.

In the USA, the rate of surplus value in the mining and manufacturing industries, calculated on the basis of official data, was 145% in 1889, 165 in 1919, 210 in 1929, and 220% in 1939. Thus, over 40 years the rate of surplus value has increased  $1\frac{1}{2}$  times.

At the same time, real wages have been steadily declining as a result of the rising cost of living. Rising subsistence prices, the increasing burden of taxation, and inflation further reduce the real earnings of the worker. In the epoch of imperialism, the gap between the earnings of the worker and the value of his labour-power increases enormously. This means an even sharper action of the general law of capitalist accumulation, which determines the relative and absolute impoverishment of the proletariat. The growth of the exploitation of the working class in the process of production is complemented by the robbery of the workers as consumers; Workers have to overpay large sums to monopolies that charge high monopoly prices for the goods they produce and sell.

Under monopoly capitalism, the commodities produced by the monopolies are no longer sold at production prices, but at much higher monopoly prices.

*The monopoly price* is equal to the cost of production plus a maximum profit well above the average rate of profit; The monopoly price is higher than the price of production and, as a rule, exceeds the value of the commodities. At the same time, the monopoly price, as Marx pointed out, cannot abolish the limits determined by the value of commodities. A high level of monopoly prices does not change the total amount of value and surplus value produced in the world capitalist economy: what the monopolies gain, the workers, small producers, and the population of the dependent countries lose. One of the sources of maximum profit that monopolies receive is the redistribution of surplus value, as a result of which non-monopoly enterprises often do not earn even average profits. By keeping prices high above the value of goods, monopolies appropriate the results of the increase in labour productivity and the reduction of production costs. In this way, they impose an ever-increasing tribute on the population.

An important instrument of monopolistic price inflation is the customs policy of the bourgeois states. In the era of free competition, it was mainly weaker countries that resorted to high customs duties. whose industries needed to be protected from foreign competition. In the epoch of imperialism, on the contrary, high tariffs serve the monopolies as a means of attack, of struggle to seize new markets. High tariffs help maintain monopoly prices within the country.

In order to conquer new foreign markets, monopolies widely use *dumping*. goods abroad at bargain prices, well below the prices of the domestic market, and often even below the cost of production. The expansion of sales abroad by way of dumping makes it possible to maintain high prices at home without reducing production, and the losses caused by waste exports are covered by higher prices in the domestic market. Once this foreign market has been conquered and



secured to the monopolies, they proceed to sell commodities at high monopoly prices.

The exploitation of the bulk of the peasantry by monopolies is expressed primarily in the fact that the dominance of monopolies gives rise to a growing discrepancy between the level of prices for agricultural products and industrial goods (the so-called “price scissors”): while selling goods at artificially inflated prices, the monopolies at the same time buy up the products of their farms at extremely low prices. Being a tool for pumping funds out of agriculture, monopoly prices retard its development. One of the strongest levers for the ruin of peasant farms is the development of mortgage credit. Monopolies entangle peasants in debt and then appropriate their land and property for next to nothing.

Monopolies’ purchase of farm products at extremely low prices does not mean that the urban consumer uses cheap food products. Between the peasant and the urban consumer there are intermediaries-merchants united in monopolistic organisations that ruin the peasants and rob urban consumers.

“Capitalism,” wrote M. Thorez in the work “The Policy of the Communist Party in the Countryside,” has succeeded in turning small peasant property—parcels on which the peasants sometimes work 14-16 hours a day—not into a means of subsistence and prosperity for the working peasants, but into an instrument of their exploitation and enslavement. Through mortgages, through the machinations of financial pirates, through high taxes and levies, high rents, and especially through competition on the part of large capitalist landowners, the bourgeoisie is ruining the middle and small peasants.”

Further, the source of the monopolies’ maximum profits is the enslavement and plunder of economically backward and dependent countries by the bourgeoisie of imperialist States. The systematic plundering of colonies and other

backward countries, and the transformation of a number of independent countries into dependent countries are an integral feature of monopoly capitalism. Imperialism cannot live and develop without a continuous influx of tribute from the foreign countries it plunders.

The monopolies derive enormous profits primarily from their *investments* in colonial and dependent countries. These profits are the result of the most cruel and inhuman exploitation of the working masses of the colonial world. Monopolies make their fortunes by means of *unequal exchange*, i.e., by selling their goods in colonial and dependent countries at prices far above their value, and by buying up goods produced in these countries at exorbitantly low prices that do not cover their value. At the same time, the monopolies receive high profits from the colonies in transport, insurance, and banking operations.

Finally, wars and the militarisation of the economy are sources of profit for monopolies. Wars enrich the magnates of finance capital enormously, and in the intervals between wars the monopolies seek to maintain a high level of their profits by means of an unrestrained arms race. Wars and the militarisation of the economy bring the monopolists rich military orders, paid for by the treasury at inflated prices, and an abundant flow of loans and subsidies from the state budget. Enterprises working for the war are placed in extremely favourable conditions with regard to the supply of raw materials, materials of production and the provision of manpower. All labour laws are repealed, workers are declared mobilised, and strikes are banned. All this makes it possible for the capitalists to increase the degree of exploitation to the utmost by increasing the intensity of labour to the highest limits. At the same time, the standard of living of the working masses is steadily declining as a result of rising taxes, the high cost of living, and the rationing system for food and other basic necessities.

Thus, the militarisation of the capitalist economy, both in war and in peacetime, means a sharp intensification of the exploitation of the working masses in the interests of increasing the maximum profits of the monopolies.

The basic economic law of modern capitalism, which determines the entire course of the development of capitalism in its imperialist stage, makes it possible to understand and explain the inevitability of growth and the aggravation of its insoluble contradictions.

## **BRIEF CONCLUSIONS**

*1. Imperialism, or monopoly capitalism, is the highest and last stage in the development of the capitalist mode of production. The transition from pre-monopoly capitalism to monopoly capitalism took place during the last third of the nineteenth century. Imperialism was finally formed by the beginning of the XX century.*

*2. The main economic features of imperialism are as follows: 1) the concentration of production and capital, which has reached such a high stage of development that it has created monopolies that play a decisive role in economic life; 2) the merger of banking capital with industrial capital and the formation of finance capital, a financial oligarchy, on this basis; (3) the export of capital, as distinct from the export of commodities, is of particular importance; (4) international monopolistic unions of capitalists are formed, dividing the world among themselves; (5) The territorial division of the land by the major imperialist powers has been completed. The completion of the economic division of the world leads to a struggle for its redivision, which inevitably gives rise to imperialist wars on a world scale.*

*3. The basic economic law of monopoly capitalism is to secure the maximum capitalist profit by exploiting, ruining and impoverishing the majority of the population of a given*

*country, by enslaving and systematically plundering the peoples of other countries, especially backward countries, and, finally, by means of wars and the militarisation of the national economy.*

## **CHAPTER XVIII. THE COLONIAL SYSTEM OF IMPERIALISM**

### **The Role of the Colonies in the Period of Imperialism.**

Colonial conquests, the desire to form large empires by subjugating weaker countries and peoples, existed even before the epoch of imperialism and even before the emergence of capitalism. But, as Lenin showed, in the period of imperialism the role and importance of the colonies change substantially, not only in comparison with the pre-capitalist epochs, but also in comparison with the period of pre-monopoly capitalism. To the “old” methods of colonial policy is added the struggle of the monopolists for the sources of raw materials, for the export of capital, for spheres of influence, and for economic and military-strategic territories.

As has been shown, the enslavement and systematic robbery of the peoples of other countries, especially the backward countries, and the transformation of a number of independent countries into dependent countries, is one of the main features of the basic economic law of modern capitalism. In the course of its spread throughout the world, capitalism has given rise to a tendency towards the economic rapprochement of individual countries, towards the abolition of national isolation and the gradual unification of vast territories into one coherent whole. The only way in which monopoly capitalism achieves the gradual economic unification of vast territories is through the enslavement of colonies and dependent countries by the imperialist powers. This unification takes place through the creation of colonial

empires based on the ruthless oppression and exploitation of *colonial* and dependent countries by the metropolises.

In the period of imperialism, the formation of the capitalist system of world economy, which is built on relations of dependence, on relations of domination and subordination, is completed. The imperialist countries, by means of intensified export of capital, expansion of “spheres of influence,” and colonial conquests, have brought the peoples of the colonies and dependent countries under their domination. “Capitalism has developed into a world system of colonial oppression and financial strangulation by a handful of ‘advanced’ countries of the vast majority of the world’s population.”<sup>74</sup> In this way, the individual national economies became links in a single chain called the world economy. At the same time, the population of the globe has split into two camps: a small group of imperialist countries, which exploit and oppress the colonial and dependent countries, and the overwhelming majority of the colonial and dependent countries, whose peoples are fighting for liberation from the yoke of imperialism.

At the monopolistic stage of capitalism, the colonial system of imperialism took shape. *The colonial system of imperialism* is the totality of the colonies and dependent countries oppressed and enslaved by the imperialist states.

Colonial plunder and seizure, imperialist tyranny and violence, colonial slavery, national oppression and lack of rights, and, finally, the struggle of the imperialist powers among themselves for domination over the peoples of the colonial countries—such were the forms in which the process of creating the colonial system of imperialism took place.

By seizing and plundering colonies, the imperialist states seek to overcome the growing contradictions within their own countries. The high profits extracted from the colonies enable the bourgeoisie to bribe the upper echelons of the

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<sup>74</sup> V. I. Lenin, *Imperialism as the Highest Stage of Capitalism*, Works, vol. 22, p. 179.

skilled workers, who, in the interests of the bourgeoisie, are trying to disintegrate the working-class movement. At the same time, the exploitation of the colonies leads to an aggravation of the contradictions of the capitalist system as a whole.

### **Colonies as Agrarian and Raw Material Appendages of the Metropolises.**

In the epoch of imperialism, the colonies are, first of all, the most reliable and profitable field for the investment of capital. In the colonies, the financial oligarchy of the imperialist countries enjoys an undivided monopoly on the investment of capital, receiving particularly high profits.

Penetrating into the backward countries, finance capital disintegrates the pre-capitalist forms of economy—small handicrafts, semi-natural small-peasant farming—and brings about the development of capitalist relations. For the purpose of exploiting the colonial and dependent countries, the imperialists are building railways on their territory and creating industrial enterprises for the extraction of raw materials. At the same time, however, imperialist management of the colonies retards the growth of the productive forces and deprives these countries of the conditions necessary for their independent economic development. The imperialists are interested in the economic backwardness of the colonies, because this backwardness makes it easier for them to retain power over the dependent countries and to intensify the exploitation of these countries.

Even where industry is relatively more developed, such as India and some Latin American countries, only the mining industry and some light industries, such as cotton, leather, and food, are developing. Heavy industry, which is the basis

of the country's economic independence, is extremely weak; Mechanical engineering is almost non-existent. The dominant monopolies take special measures to prevent the creation of the production of instruments of production: they refuse to grant credits to colonies and dependent countries for this purpose, and they do not sell the necessary equipment and patents. The colonial dependence of backward countries hinders their industrialisation.

In 1920, China's share in world coal production was 1.7%, in pig iron smelting 0.8%, and in copper production 0.03%. In India, per capita steel production on the eve of the Second World War (1938) was 2.7 kilograms per year, compared to 222 kilograms in Great Britain. In 1946, the whole of Africa had only 1.5% of the fuel and electricity produced in the capitalist world. Even the textile industry in the colonial and dependent countries is underdeveloped and backward. In India in 1947 there were about 10 million spindles against 34.5 million spindles in England, whose population is 8 times less than that of India; in Latin America in 1945 there were 4.4 million spindles compared to 23.1 million spindles in the United States.

Deprived of the conditions for independent industrial development, the colonies and semi-colonies remain agrarian countries. The majority of the population of these countries derives from agriculture, which is constrained by semi-feudal relations. Stagnation and degradation of agriculture retard the growth of the domestic market.

The monopolies that dominate in the colonies permit the development of only those branches of production which ensure the supply of raw materials and foodstuffs to the mother countries. These are the extraction of minerals, the cultivation of cash crops and their primary processing. As a consequence, the economies of the colonies and semi-colonies become extremely lopsided. Imperialism transforms the enslaved countries into *agrarian and raw material appendages* to the metropolises.



The economies of many dependent countries are specialised in the production of one or two products that are entirely exported. Thus, in the period after the Second World War, oil accounted for 97 per cent of Venezuela's exports, tin ore 70 per cent of Bolivia's exports, coffee about 58 per cent of Brazil's exports, sugar over 80 per cent of Cuba's exports, rubber and tin over 70 per cent of Malaya's exports, rubber and tea 80 per cent of Ceylon's exports, cotton about 80 per cent of Egypt's exports, coffee and cotton 60 per cent of Kenya's and Uganda's exports, and copper about 85 per cent of Northern Rhodesia's exports. Cocoa accounts for about 50% of the export of the Gold Coast (Africa). The one-sided development of agriculture (the so-called *monoculture*) leaves entire countries completely at the mercy of monopolists, the buyers of raw materials.

In connection with the transformation of the colonies into agrarian and raw material appendages of the metropolises, the role of the colonies as sources of *cheap raw materials for the* imperialist states is enormously increasing. The more highly developed capitalism is, the more severe is the shortage of raw materials, the more intense is competition and the pursuit of sources of raw materials throughout the world, and the more desperate is the struggle for the acquisition of colonies. Under monopoly capitalism, when industry consumes vast quantities of coal, oil, cotton, iron ore, non-ferrous metals, rubber, etc., no monopoly can consider itself secure unless it has constant sources of raw materials in its hands. From the colonies and dependent countries, the monopolies obtain the vast quantities of raw materials they need at low prices. Monopolistic possession of sources of raw materials gives decisive advantages in the competitive struggle. The seizure of sources of cheap raw materials allows industrial monopolies to dictate monopoly prices on the world market and to sell their products at inflated prices.

A number of the most important raw materials are obtained by the imperialist powers exclusively or for the most part from colonies and semi-colonies. For example, in the period after World War II, the colonial and dependent countries supplied almost all of the natural rubber consumed in the capitalist world, almost all tin, 100 per cent of jute, 50 per cent of oil, and a number of important foodstuffs—cane sugar, cocoa, coffee, and tea.

The sources of the various *strategic raw materials* necessary for the waging of war are the subject of a fierce struggle: coal, oil, iron ores, non-ferrous and rare metals, rubber, cotton, etc. For a number of decades the imperialist powers, above all the United States and Britain, have been fighting for monopoly possession of the rich sources of *oil*. The distribution of the world's oil reserves affects not only the economic but also the political interests and relations of the imperialist powers.

In the epoch of imperialism, the importance of the colonies as *markets* for the metropolitan countries increased. By means of an appropriate customs policy, the imperialists protect the colonial markets from outside competition. In this way the monopolies are enabled to sell their products in the colonies at exorbitant prices, including the worst commodities which are not sold in other markets. The non-equivalence of exchange between the imperialist powers and the dependent countries is steadily growing. The monopolies engaged in trade with the colonies (the purchase of raw materials and the sale of manufactured goods) receive hundreds of per cent of the profits. They are the true rulers of entire countries, controlling the lives and wealth of tens of millions of people.

The colonies serve as a source of extremely cheap, often almost gratuitous, labour. The monstrous exploitation of the working masses ensures particularly high returns on the capital invested in the colonies and dependent countries. In addition, the mother countries import hundreds of thousands of labourers from these countries, who perform especially

hard work for miserable wages. Thus, the monopolies in the United States, especially in the south of the country, expose the workers of Mexico and Puerto Rico to inhuman exploitation, the monopolies of France the Indo-Chinese workers, and so on.

An idea of the amount of tribute levied by monopolies in the colonies and semi-colonies is given by the following calculations made on the basis of official data. The annual tribute received by British imperialism from India on the eve of World War II was 150-180 million pounds, including: interest on British investments - 40-45 million, British government expenditures charged to India - 25-30 million, income and salaries of British officials, military specialists in India-25-30 million, commission income of English banks-15-20 million, income from trade-25-30 million, shipping revenue is 20-25 million rubles. In 1948, American monopolies received revenues from dependent countries: from capital investments - \$ 1.9 billion, from transportation, insurance and other usurious operations - \$ 1.9 billion, from the sale of goods at inflated prices - \$ 177.5 billion, from the purchase of goods at low prices - \$ 1.2 billion, and in total in the form of monopolistic tribute - \$ 7.5 billion dollars. Of this tribute, at least \$ 2.5 billion is delivered by Latin American countries.

In a situation where the world has already been divided and preparations are under way for an armed struggle for its redivision, the imperialist powers, for strategic reasons, are striving to take possession of any land, regardless of its economic significance. The imperialists seize all territories that have or may have any value as strongholds, naval or air bases.

Colonies are suppliers of cannon fodder to the metropolises. In the First World War, up to one and a half million Negro soldiers from African colonies fought on the side of France. In times of war, the mother countries shift much of their financial burdens to the colonies. A large part of the war loans are sold in the colonies; England made

extensive use of the foreign exchange reserves of its colonies during the First and Second World Wars.

The predatory exploitation of the colonial and dependent countries by imperialism sharpens the irreconcilable contradiction between the urgent needs of the economies of these countries and the selfish interests of the metropolises.

### **Methods of Colonial Exploitation of the Working Masses.**

A characteristic feature of colonial methods of exploitation, which provide monopolistically high profits to the financial capital of the metropolises, is the combination of imperialist plunder with feudal-serf forms of exploitation of the working people. The development of commodity production and the spread of monetary relations, the expropriation of land from vast masses of the indigenous population, and the destruction of small-scale handicraft production took place along with the artificial preservation of feudal vestiges and the imposition of methods of forced labour. With the development of capitalist relations, rents in kind were replaced by monetary rents, and taxes in kind by monetary taxes, which further accelerated the ruin of the peasant masses.

The ruling classes in the colonies and semi-colonies are the feudal landlords and the urban and rural capitalists (kulaks). The capitalist class is divided into the comprador bourgeoisie and the national bourgeoisie. *Compradors* are native intermediaries between foreign monopolies and the colonial market for goods and raw materials. The feudal landlords and the comprador bourgeoisie are vassals of foreign finance capital, the direct corrupt agents of international imperialism, which enslaves the colonies and semi-colonies. With the development of their own industry,

the national bourgeoisie grows in the colonies, finding itself in a dual position: on the one hand, the oppression of foreign imperialism and feudal survivals blocks its path to economic and political domination, and on the other hand, it participates in the exploitation of the working class and the peasantry together with foreign monopolies. In the largest colonial and semi-colonial countries there are monopolistic associations of the local bourgeoisie that are dependent on foreign monopolies. Inasmuch as the national liberation struggle is aimed at overthrowing the rule of imperialism, winning the country's national independence, and eliminating the feudal survivals that hinder the development of capitalism, the national bourgeoisie participates in this struggle at a certain stage and plays a progressive role.

The working class grows in the colonies and dependent countries with the development of industry and the spread of capitalist relations. Its vanguard is the industrial proletariat. A large stratum of the proletariat consists of agricultural labourers, farm labourers, workers in capitalist manufactures and small enterprises, as well as urban labourers engaged in all kinds of manual labour.

The bulk of the population of the colonies and semi-colonies is the peasantry, and in most of these countries the population of the countryside consists of the overwhelming majority of landless and land-poor peasants, the poor and the middle peasants. The large urban petty bourgeoisie is represented by small merchants and artisans.

The concentration of landed property in the hands of landlords and usurers is supplemented by the seizure of vast land holdings by the colonizers. In a number of colonies, imperialism established plantation farming. *Plantations* are large agricultural enterprises for the production of certain types of plant raw materials (cotton, rubber, jute, coffee, and so on), owned primarily by colonizers and based on low technology, slave or semi-slave labour of the disenfranchised population. In the most densely populated colonial and

dependent countries, small peasant farming predominates, entangled in vestiges of feudalism and usurious bondage (China before the victory of the people's revolution, India, Indonesia, and others). In these countries, the concentration of landed property in the hands of landlords is combined with small-scale land tenure.

Large landowners lease land in small plots on indentured servitude conditions. Multi-stage parasitic *sublease* is widespread, in which several intermediaries are wedged between the landowner and the peasant who cultivates the land, taking away a significant share of the harvest from the farmer. Sharecropping predominates, and the peasant finds himself entirely at the mercy of the landlord, to whom he is indebted. In a number of countries there are direct forms of *corvée* and labour: landless peasants are obliged to work for the landlord several days a week for rent or debts. Extreme poverty forces the peasant to go into debt, into bondage, and sometimes into slavery to the usurer; It is not uncommon for a peasant to sell members of his family into slavery.

Before the British rule in India, the state received part of the products produced by the peasants in the form of a tax. After the conquest of India, the British authorities transformed the former collectors of state taxes into large landowners owning estates of hundreds of thousands of hectares. About three-quarters of India's rural population has virtually no land of their own. In the form of rent, the peasant pays from 1/2 to 2/3 of the crop, and from the remaining part he is forced to pay the usurer interest on debts in kind. In Pakistan, according to data for the postwar years, 70% of the total cultivated area belongs to 50,000 large landowners.

In the Middle East, 75-80% of the population is currently employed in agriculture. At the same time, in Egypt, 770 large landlords have more land than two million poor households, which make up about 75% of all farms; of the 14.5 million people living in agriculture, 12 million are small tenants and farmhands; rents absorb up to 4 / 5 of the crop. In Iran, about 2/3 of the land belongs to landlords, 1/6-to the state and the

Muslim church; the tenant receives one or two fifths of the crop. In Turkey, more than 2/3 of farmers are effectively deprived of land.

In Latin America, land is concentrated in the hands of large landlords and foreign monopolies. For example, in Brazil, according to the 1940 census, 51% of households had only 3.8% of the land area. In Latin American countries, the impoverished peasant is forced to take loans from the landowner, which are subject to repayment by working out; under this system (the so-called 'peonage') obligations pass from generation to generation and the entire family of the peasant actually becomes the property of the landowner. Marx called peonage a hidden form of slavery.

A large part of the meagre product of the back-breaking labour of the peasant and his family is appropriated by the exploiters: the landlord, the usurer, the buyer, the tax collector, etc. They take away the product not only of the surplus, but also of a considerable part of the necessary labour of the farmer. The income left to the peasant is in many cases insufficient even for a starving existence. Many peasant farms are ruined, and their former owners are replenishing the army of farm labourers. Agrarian overpopulation reaches enormous proportions.

Crushed by landlord and usurious bondage, peasant farming is able to use only the most primitive technique, which has remained unchanged for hundreds, and in some places even thousands of years. Primitive tillage techniques lead to extreme soil depletion. Therefore, many colonies, while remaining agrarian countries, are unable to feed their populations and are forced to import foodstuffs. The agriculture of the countries enslaved by imperialism is doomed to decline and degradation.

In India, with a huge agricultural overpopulation and land famine, no more than 30% of the total area suitable for cultivation is used productively. On land that was once considered the most fertile in the world, yields are

exceptionally low and continuously falling. Frequent crop failures cause millions of people to starve to death.

In the Middle East, irrigation systems have been neglected or destroyed; On average, no more than 9-10% of the land area is cultivated.

Colonial oppression condemns the working class to political disenfranchisement and brutal exploitation. The cheapness of labour force causes an extremely low technical level of industrial enterprises and plantations. With low production techniques, the huge profits of the monopolies are secured by means of an exorbitantly high rate of surplus value.

The working day in the colonies reaches 14-16 hours or more. As a rule, there is no occupational safety and security in industrial enterprises and transport. The extreme deterioration of equipment, the reluctance of entrepreneurs to spend money on repairs and safety lead to frequent accidents, from which hundreds of thousands of people die or become crippled. The absence of any social legislation condemns the worker to starvation in case of unemployment, injury at work, or occupational disease.

The wages of the colonial workers are extremely low, insufficient even to meet the most urgent needs. The workers have to pay a certain share of their miserable wages to all sorts of intermediaries—contractors, foremen, overseers, who are in charge of hiring labour. The labour of women is widespread, as well as the labour of children from the age of 6 or 7, which is paid even more poorly than the labour of male workers. Most workers are entangled in a web of debt bondage. In many cases, workers live in special barracks or camps as prisoners deprived of the right to move freely. Forced labour is used on a large scale in both agriculture and industry.

Extreme economic backwardness, combined with a high degree of exploitation, condemned colonial peoples to hunger, poverty and extinction. A huge share of the material



wealth created in the colonies is taken away free of charge by the largest monopolies of the imperialist states. As a result of the exploitation of the colonies and the retardation of the development of their productive forces, the national income per capita in the colonies is 10 to 15 times less than in the metropolises. The standard of living of the overwhelming majority of the population is extremely low. The mortality rate is extremely high: famine and epidemics lead to the extinction of the population of entire areas.

In the African colonies, slavery exists officially; the authorities organize raids on Negroes, the police cordon off villages and send captured people to build roads, to cotton and other plantations, etc. Debt slavery is common in India; it was also common in pre-revolutionary China. The sale of children into slavery is also common.

Racial discrimination in pay prevails in the colonies. In French West Africa, skilled indigenous workers still earn 4 to 6 times less than European workers of the same specialty. In the Belgian Congo, African workers earn 5-10 times less than European workers in the mines.

In the United States, Black workers and employees earn less than half the wages paid to white workers and employees of the same qualifications, and the income of Black farmers is on average half the income of white farmers in the same areas. The overexploitation of the black population in the United States gave American monopolies \$ 4 billion in additional economic profit annually in the years after World War II. In the Union of South Africa, 65% of indigenous children die before the age of two.

## **The National Liberation Struggle of the Colonial Peoples.**

Before the epoch of imperialism, the national question embraced a few, mainly European nations (Irish, Hungarians,

Poles, Finns, Serbs, and others) and did not go beyond the framework of individual multinational states. In the epoch of imperialism, when the finance capital of the metropolises enslaved the peoples of the colonial and dependent countries, the framework of the national question was broadened, and in the very course of events it merged with the general question of the colonies. "In this way the national question was transformed from a private and domestic question into a general and international question, into a world question of the liberation of the oppressed peoples of the dependent countries and colonies from the yoke of imperialism."<sup>75</sup>

The only way to liberate these peoples from the yoke of exploitation is through their revolutionary struggle against imperialism. Throughout the capitalist era, the peoples of the colonial countries waged a struggle against foreign oppressors, often raising rebellions, which were brutally suppressed by the colonizers. In the period of imperialism, the liberation struggle of the peoples of the colonial and dependent countries assumed unprecedented dimensions.

Already at the beginning of the XX century, especially after the first Russian Revolution of 1905, the working masses of the colonial and dependent countries were awakened to political life. The revolutionary movement rose up in China, Korea, Persia, and Turkey.

The countries of the colonial world differ from each other in the level of economic development and in the degree to which the proletariat is formed in them. A distinction must be made between at least three categories of colonial and dependent countries: (1) countries which are completely undeveloped industrially, with little or no proletariat of their own; (2) countries which are industrially underdeveloped and have a comparatively small proletariat, and (3) countries which are more or less capitalistically developed and have a more or less numerous proletariat.

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<sup>75</sup> J. V. Stalin, *On the Foundations of Leninism*, Works, vol. 6, p. 139.

This determines the peculiarities of the national liberation movement in the colonial and dependent countries.

Since the population of the colonial and dependent countries is dominated by the peasantry, the national-colonial question is essentially a peasant question. The general aim of the national liberation movement in the colonies and dependent countries is liberation from the domination of imperialism and the abolition of all feudal survivals. For this reason, every national liberation movement in the colonies and dependent countries directed against imperialism and feudal oppression, even if the proletariat is comparatively poorly developed in these countries, has a progressive character.

The national liberation movement in the colonies and dependent countries, headed by the proletariat as the recognised leader of the broad masses of the peasantry and of all the working people, is drawing into the struggle against imperialism the vast majority of the world's population, which is oppressed by the financial oligarchy of several major capitalist powers. The interests of the proletarian movement in the capitalistically developed countries and of the national liberation movement in the colonies demand that these two types of revolutionary movement be united in a common front of struggle against the common enemy, against imperialism. Proletarian internationalism proceeds from the premise that a people cannot be free if they oppress other peoples. At the same time, as Leninism teaches, the effective support of the proletariat of the ruling nations for the liberation movement of the oppressed peoples means defending, defending, and carrying out the slogan of the right of nations to secede and to independent state existence.

The growth of the national liberation struggle of the oppressed peoples of the colonies and dependent countries is undermining the foundations of imperialism and preparing its collapse. The colonial and dependent countries are

transformed from the reserve of the imperialist bourgeoisie into the reserve of the revolutionary proletariat, into its ally.

## **BRIEF CONCLUSIONS**

1. *The unrestrained exploitation of colonies and semi-colonies is one of the most important conditions for the existence of modern capitalism. The maximum profits of the monopolies are inseparably linked with the exploitation of the colonies and semi-colonies as markets, sources of raw materials, spheres of investment of capital, and reservoirs of cheap labour. By destroying the pre-capitalist forms of production and bringing about the accelerated growth of capitalist relations, imperialism permits only such a development of the economy of the colonies and the dependent countries in which they are deprived of the opportunity to fight economic self-sufficiency and independence. The colonies serve as agrarian and raw material appendages of the metropolises.*

2. *The colonial system of imperialism is characterised by the interweaving of capitalist exploitation and plunder with various vestiges of feudal, even slave, oppression. Finance capital artificially preserves the vestiges of feudalism in the colonies and dependent countries and implants forced labour and slavery. Hard labour conditions with an extremely low level of technology, complete lack of rights, ruin and impoverishment, hunger and mass extinction are the lot of the working class and the peasantry of colonial and semi-colonial countries.*

3. *The intensification of colonial exploitation and oppression inevitably evokes resistance from the broadest masses of the population of the colonial and dependent countries. The national liberation movement of the enslaved peoples is drawing the overwhelming majority of the world's population into the struggle against imperialism,*

*undermining the foundations of imperialism and preparing for its collapse.*

## CHAPTER XIX. THE HISTORICAL PLACE OF IMPERIALISM

### **Imperialism is the Last Stage of Capitalism.**

Defining the historical place of imperialism in relation to capitalism in general, Lenin wrote: "Imperialism is a special historical stage of capitalism. This peculiarity is threefold: imperialism is (1) monopoly capitalism; (2) parasitic or decaying capitalism; (3) - moribund capitalism."<sup>[1]</sup>

Monopoly capitalism does not and cannot eliminate the foundations of the old capitalism. In a certain sense, it is a *superstructure* over the old, pre-monopoly capitalism, which is everywhere combined with pre-capitalist forms of economy. Just as there is not and cannot be "pure capitalism," the existence of "pure imperialism" is inconceivable. Even in the most developed countries, along with monopolies, there are many small and medium-sized enterprises, especially in light industry, agriculture, trade, and other branches of the economy. In almost all capitalist countries, a considerable part of the population is made up

of the peasantry, which for the most part is engaged in simple commodity farming. The overwhelming majority of humanity lives in colonial and semi-colonial countries, where imperialist oppression is intertwined with pre-capitalist, especially feudal, forms of exploitation.

The essential feature of imperialism is that monopolies exist side by side with exchange, the market, competition, and crises. From this it follows that at the monopolistic stage of capitalism the economic laws of capitalism in general remain fully in force, but their actions are determined by the fundamental economic law of modern capitalism, the law of ensuring the maximum capitalist profit. Therefore, they act with increased destructive power. Such is the case with the

laws of value and surplus-value, with the law of competition and anarchy of production, with the general law of capitalist accumulation, which causes the relative and absolute impoverishment of the working class and condemns the main masses of the toiling peasantry to impoverishment and ruin, with the contradictions of capitalist reproduction and economic crises.

Monopolies carry the socialisation of production to the limit possible under capitalism. Large and large enterprises, each employing thousands of people, produce a significant share of all output in the most important industries. Monopolies bind gigantic enterprises together, take into account markets and sources of raw materials, and seize scientific personnel, inventions, and improvements. Large banks control almost all of the country's money. The links between the various branches of the economy and their interdependence are growing enormously. Industry, with its gigantic production capacity, is capable of rapidly increasing the mass of goods produced.

At the same time, the means of production remain the private property of the capitalists. A decisive part of the means of production is at the disposal of the monopolies. In pursuit of maximum profit, the monopolies increase the degree of exploitation of the working class in every possible way, which leads to a sharp increase in the impoverishment of the working masses and a decrease in their purchasing power.

Thus, the domination of the monopolies sharply sharpens the basic contradiction of capitalism - the contradiction between the social character of production and the private capitalist form of appropriation of the results of production. It is becoming more and more evident that the social character of the process of production requires social ownership of the means of production.

In the epoch of imperialism, the productive forces of society have reached such a level of development that they

do not fit into the narrow framework of capitalist relations of production. Capitalism, which replaced feudalism as a more progressive mode of production, was transformed in the imperialist stage into a reactionary force retarding the development of human society. The economic law of the obligatory correspondence of the relations of production to the character of the productive forces requires the replacement of capitalist relations of production by new, socialist relations. This law meets with strong resistance on the part of the ruling classes, and above all on the part of the monopoly bourgeoisie and the big landowners, who are trying to prevent the working class from forming an alliance with the peasantry and overthrowing the bourgeois system.

The high level of development of the productive forces and the socialisation of production, the extreme aggravation of all the contradictions of bourgeois society testify to the fact that capitalism, having entered the last stage of its development, is fully ripe for its replacement by a higher social system, socialism.

## **Imperialism is Parasitic or Decaying Capitalism.**

Imperialism is *parasitic* or *decaying* capitalism. The tendency to stagnation and decay is inevitably engendered by the domination of monopolies striving for maximum profits. Monopolies, insofar as they are able to dictate prices in the market and artificially keep them high, are not always interested in the application of technical innovations. Monopolies are often a hindrance to technological progress; they keep it under wraps for years major scientific discoveries and technical inventions.

Thus monopolies have a tendency to stagnate and decay, and under certain conditions this tendency prevails. This



circumstance, however, did not preclude the relatively rapid growth of capitalism before the Second World War. But this growth has been extremely uneven, falling further and further behind the enormous opportunities offered by modern science and technology.

Today's highly developed technology puts forward grandiose tasks, the fulfilment of which is beyond the capacity of decaying capitalism. No capitalist country can, for example, make extensive use of its hydroelectric resources because of the obstacles placed by private ownership of land and the domination of monopolies. The capitalist countries are not in a position to make use of the possibilities of modern science and technology to carry out extensive work to increase the fertility of the soil. The interests of the capitalist monopolies prevent the use of atomic energy for peaceful purposes.

"Wherever you turn," wrote V. I. Lenin as early as 1913, "at every step you encounter problems that humanity is fully capable of solving *immediately*. Capitalism gets in the way. He has amassed heaps of wealth - and made people *slaves* to that wealth. It has solved the most difficult problems of technology, and it has stalled the implementation of technical improvements because of the poverty and ignorance of millions of people, because of the stupidity of a handful of millionaires."<sup>77</sup>

The decay of capitalism is expressed in the growth of parasitism. The capitalist class loses all connection with the process of production. The management of enterprises is concentrated in the hands of hired technical personnel. The overwhelming majority of the bourgeoisie and landlords are turning into *rentiers* - people who own securities and live on the proceeds from these securities (by cutting coupons). The parasitic consumption of the exploiting classes is growing.

The complete isolation of the rentier stratum from production is further intensified by *the export of capital and*

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<sup>77</sup> V. I. Lenin, *Civilized Barbarism*, Works, vol. 19, p. 349

*the* income from foreign investment. The export of capital imposes the imprint of parasitism on the whole country, which lives by the exploitation of the peoples of other countries and colonies. The capital exported abroad constitutes an ever-increasing share of the national wealth of the imperialist countries, and the income from these capitals is an ever-increasing part of the income of the capitalist class. Lenin called the export of capital parasitism squared.

In 1929, capital invested abroad amounted to 18% in relation to national wealth: in England - 18%, in France - 15%, in Holland - about 20%, in Belgium and Switzerland - 12% each. In 1929, the income from capital invested abroad exceeded the income from foreign trade: in England-more than 7 times, in the United States-5 times.

In the United States of America, rentier income from securities was \$ 1.8 billion in 1913 and \$ 8.1 billion in 1931, which was 1.4 times the total gross cash income of the 30 million farming population in the same year. The United States is a country where the parasitic features of modern capitalism, as well as the predatory nature of imperialism, are particularly pronounced.

The parasitic character of capitalism is clearly manifested in the fact that a number of bourgeois countries are being transformed into *rentier states*. By means of enslaving loans, the largest imperialist countries extract enormous revenues from the debtor countries and subjugate them economically and politically. The rentier state is the state of parasitic, decaying capitalism. The exploitation of colonies and dependent countries, which is one of the main sources of maximum profits for the monopolies, turns a handful of the richest capitalist countries into parasites on the body of the rest of humanity.

The parasitic character of capitalism finds expression in the growth of *militarism*. An ever-increasing share of the national income, and especially of the income of the working people, is taken into the state budget and spent on the

maintenance of huge armies and on the preparation and waging of imperialist wars. Being one of the most important methods of ensuring the maximum profits of the monopolies, the militarisation of the economy and imperialist wars mean at the same time the predatory destruction of many human lives and enormous material values.

The intensification of parasitism is inseparably linked with the fact that gigantic masses of people are torn away from socially useful labour. The army of the unemployed is growing, the number of people engaged in the service of the exploiting classes in the state apparatus, as well as in the incredibly inflated sphere of circulation, is increasing.

The decay of capitalism is further manifested in the fact that the imperialist bourgeoisie, at the expense of its profits from the exploitation of the colonies and dependent countries, systematically bribes, by means of higher wages and other handouts, a small elite of skilled workers, the so-called labour aristocracy. With the support of the bourgeoisie, the labour aristocracy seizes command posts in the trade unions; Along with petty-bourgeois elements, it forms the active core of the right-wing socialist parties and poses a serious danger to the working-class movement. This stratum of bourgeoisified workers is the social basis of opportunism.

Opportunism in the working-class movement is the adaptation of the working-class movement to the interests of the bourgeoisie by undermining the revolutionary struggle of the proletariat for emancipation from capitalist slavery. The opportunists poison the consciousness of the workers by preaching the reformist path of “improving” capitalism, they demand that the workers support the bourgeois governments in all their domestic and foreign imperialist policies.

The opportunists are bourgeois agents in the working-class movement. By splitting the ranks of the working class, the opportunists prevent the workers from uniting their forces to overthrow capitalism. This is one of the most

important reasons why the bourgeoisie still remains in power in many countries.

Pre-monopoly capitalism with its free competition corresponded to a limited bourgeois democracy. Imperialism, with its monopoly rule, is characterised by a shift from democracy to political reaction in the domestic and foreign policies of bourgeois States. Political reaction along the whole line is a characteristic of imperialism. The leaders of monopolies or their proxies occupy the most important positions in governments and in the entire state apparatus. Under the conditions of imperialism, governments are set up not by the people, but by the magnates of finance capital. Reactionary monopoly cliques seek to consolidate their power by nullifying the democratic rights of the working people, which they have won through many generations of hard struggle. This makes it necessary to strengthen the struggle of the masses for democracy, against imperialism and reaction in every possible way. "Capitalism in general, and imperialism in particular, turns democracy into an illusion—and at the same time, capitalism generates democratic aspirations among the masses, creates democratic institutions, and sharpens the antagonism between imperialism, which denies democracy, and the masses striving for democracy."<sup>78</sup>

In the epoch of imperialism, the struggle of the broadest masses of the people, led by the working class, against the reaction engendered by the monopolies is of great historical significance. It is precisely on the activity, organisation and determination of the masses of the people that depends the frustration of the misanthropic designs of the aggressive forces of imperialism, which are incessantly preparing new ordeals and military catastrophes for the peoples.

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<sup>78</sup> V. I. Lenin, Works, vol. 23, p. 13.

## Imperialism is the Eve of the Socialist Revolution.

Imperialism is *moribund* capitalism. The operation of the fundamental economic law of modern capitalism sharpens all the contradictions of capitalism, carries them to the last line, to the extreme limits, beyond which the revolution begins. The most important of these contradictions are the following three.

First, the *contradiction between labour and capital*. The domination of the monopolies and the financial oligarchy in the capitalist countries leads to the intensification of the exploitation of the working classes. The sharp deterioration of the material situation and the intensification of the political oppression of the working class are causing an increase in its indignation and leading to an intensification of the class struggle between the proletariat and the bourgeoisie. Under these conditions, the old methods of economic and parliamentary struggle of the working class are completely inadequate. Imperialism leads the working class to the socialist revolution as the only salvation.

Secondly, the *contradiction between the imperialist powers*. In the struggle for maximum profits, the monopolies of the various countries clash, and each of the capitalist groups strives to secure its predominance by seizing markets, sources of raw materials, and spheres of capital investment. The fierce struggle between the imperialist countries for spheres of influence inevitably leads to imperialist wars, which weaken the position of capitalism in general and bring the socialist revolution closer.

Thirdly, the *contradiction between the oppressed peoples of the colonies and dependent countries and the imperialist powers that exploit them*. As a result of the development of capitalism in the colonies and semi-colonies, the national liberation movement against imperialism is intensifying. The colonies and dependent countries are being

transformed from the reserves of imperialism into the reserves of the proletarian revolution.

These main contradictions characterize imperialism as a moribund capitalism. This does not mean that capitalism can wither away on its own, in the form of an “automatic collapse”, without the most determined struggle of the popular masses, led by the working class, for the abolition of the rule of the bourgeoisie. It only means that imperialism is the stage in the development of capitalism at which the proletarian revolution has become a practical inevitability and favourable conditions are ripe for a direct assault on the strongholds of capitalism. That is why Lenin characterised imperialism as the eve of the socialist revolution.

### **State-Monopoly Capitalism.**

In the epoch of imperialism, the bourgeois state, which is the dictatorship of the financial oligarchy, carries out all its activities in the interests of the ruling monopolies.

As the contradictions of imperialism become more acute, the ruling monopolies are intensifying their direct control of the state apparatus. More and more often, the largest magnates of capital personally act as heads of the state apparatus. The process of transformation of monopoly capitalism into state-monopoly capitalism is taking place. Already the First World War greatly accelerated and aggravated this process.

*State-monopoly capitalism* consists in the *subordination* of the state apparatus to the capitalist monopolies and its use to interfere in the country's economy (especially in connection with its militarisation) in order to ensure maximum profits for the monopolies and to strengthen the omnipotence of finance capital. At the same time, individual enterprises, industries, and economic functions (the provision of labour, the supply of scarce raw

materials, the rationing system for the distribution of products, the construction of military enterprises, the financing of the militarisation of the economy, and so on) are transferred to the hands of the state, while private ownership of the means of production remains dominant in the country.

The monopolies use state power to actively promote the concentration and centralisation of capital and to strengthen the power and influence of the largest monopolies: the state compels independent entrepreneurs to submit to monopolistic associations by special measures, and in times of war it carries out a forced concentration of production, closing down many small and medium-sized enterprises. In the interests of the monopolies, the state, on the one hand, imposes high customs duties on imported goods, and, on the other hand, encourages the export of goods by paying export duties to the monopolies and making it easier for them to conquer new markets by dumping.

Monopolies use the state budget to rob the population of their country by means of taxes and obtaining orders from the state that bring huge profits. The bourgeois state, under the pretext of “encouraging economic initiative,” pays enormous sums of subsidies to the largest entrepreneurs. In the event of the threat of bankruptcy of monopolies, they receive funds from the state to cover losses, and their tax debts to the state are written off.

The development of state-monopoly capitalism is particularly intensified in the period of preparation and waging of imperialist wars. Lenin called state-monopoly capitalism a penal servitude for the workers, a paradise for the capitalists. The governments of the imperialist countries issue huge orders to the monopolies for the supply of arms, munitions and foodstuffs, build armament factories at the expense of the treasury and place them at the disposal of the monopolies, and issue war loans. At the same time, the bourgeois states are shifting all the burdens of the war onto

the working people. All this provides the monopolies with colossal profits.

The development of state-monopoly capitalism leads, firstly, to a further acceleration of the capitalist socialisation of production, which creates the material prerequisites for the replacement of capitalism by socialism. Lenin pointed out that state-monopoly capitalism is the most complete material preparation for socialism.

The development of state-monopoly capitalism leads, secondly, to the intensification of the relative and absolute impoverishment of the proletariat. With the help of state power, the monopolies in every possible way increase the degree of exploitation of the working class, the peasantry, and broad strata of the intelligentsia, which inevitably causes a sharp sharpening of the contradictions between the exploited and the exploiters and an intensification of the struggle of the proletariat and other strata of the working people for the abolition of capitalism.

The defenders of capitalism, concealing the subordination of the bourgeois state to the capitalist monopolies, assert that the state has become the decisive force in the economy of the capitalist countries and is capable of ensuring the planned management of the national economy. As a matter of fact, however, the bourgeois state cannot manage the economy in a planned manner, because the economy is not at its disposal, but in the hands of the monopolies. Any attempt by the state to “regulate” the economy under capitalism is powerless in the face of the spontaneous laws of economic life.



## **The Law of the Unevenness of the Economic and Political Development of the Capitalist Countries in the Period of Imperialism and the Possibility of the Victory of Socialism in One Country.**

Under capitalism, individual enterprises and branches of the country's economy cannot develop evenly. Under conditions of competition and anarchy of production, the uneven development of the capitalist economy is inevitable. But in the pre-monopoly era, capitalism as a whole was still on the rise. Production was divided among a large number of enterprises, free competition reigned, and there were no monopolies. Capitalism could still develop relatively smoothly. Some countries have been ahead of others for a long period of time. At that time, there were vast territories on the globe that were not occupied by anyone. There were no military clashes on a global scale.

The situation changed radically with the transition to monopoly capitalism. The high level of technological development has opened up the opportunity for young countries to quickly surpass and outstrip older rivals in leaps and bounds. Countries that are the latest to embark on the path of capitalist development make use of the ready-made results of technical progress—machines, methods of production, etc. On the other hand, in the old countries the domination of monopolies took shape earlier than in the young ones, which are characterised by a tendency toward parasitism, decay, and stagnation of technology. Hence the rapid, *abrupt* development of some countries, while the growth of others is retarded. This spasmodic development is also greatly intensified by the export of capital. An opportunity is being created for some countries to overtake other countries, to oust them from the markets, and to seek

the redivision of the already divided world with an armed hand. In the period of imperialism, the uneven development of the capitalist countries became the decisive force of imperialist development.

The correlation of economic forces of the imperialist powers is changing with unprecedented rapidity. The growth of the military forces of the imperialist states is also uneven. The changed balance of economic and military forces inevitably comes into conflict with the old distribution of colonies and spheres of influence. A struggle for the redivision of the already divided world begins. The real power of the various imperialist groups is tested by means of bloody and devastating wars.

In 1860, England occupied first place in world industrial production; France followed behind her. Germany and the United States of America were then just emerging onto the world stage. Ten years passed, and the rapidly growing country of young capitalism - the United States of America - overtook France and changed places with it. A decade later, the United States of America overtook England and firmly took first place in world industrial production, and Germany overtook France and took third place after the United States and England. By the beginning of the XX century, Germany pushed aside England, taking second place after the United States. As a result of changes in the balance of power in capitalist countries, the capitalist world splits into two warring imperialist camps and world wars arise.

Owing to the uneven development of the capitalist countries in the period of imperialism, world capitalism cannot develop except through crises and military catastrophes. The sharpening of the contradictions in the camp of imperialism and the inevitability of military clashes lead to the mutual weakening of the imperialists. The world front of imperialism becomes easily vulnerable to the proletarian revolution. On this basis, a breakthrough of the front can take place at the link where the chain of the

imperialist front is weakest, at the point where the most favourable conditions for the victory of the proletariat are developing.

The unevenness of economic development in the epoch of imperialism also determines the unevenness of political development, which means that the political prerequisites for the victory of the proletarian revolution in different countries mature at different times. These prerequisites include, first of all, the acuteness of the class contradictions and the degree of development of the class struggle, the level of class consciousness, political organisation and revolutionary determination of the proletariat, and its ability to lead the main mass of the peasantry.

The law of the unevenness of the economic and political development of the capitalist countries in the period of imperialism is the starting point of Lenin's doctrine of the possibility of the victory of socialism initially in several countries, or even in a single country.

In the middle of the nineteenth century, Marx and Engels, studying pre-monopoly capitalism, came to the conclusion that the socialist revolution could be victorious only simultaneously in all or most civilised countries. However, at the beginning of the 20th century, especially during the First World War, the situation changed dramatically. Pre-monopoly capitalism has grown into monopoly capitalism. Ascending capitalism has become descending, dying capitalism. The war has exposed the incurable weaknesses of the imperialist world front. At the same time, the law of uneven development predetermined the different times of the maturation of the proletarian revolution in different countries. Proceeding from the law of uneven development of capitalism in the epoch of imperialism, Lenin came to the conclusion that the old formula of Marx and Engels no longer corresponded to the new historical conditions, that under the new conditions the socialist revolution could quite well triumph in one country,

taken separately, and that the simultaneous victory of the socialist revolution in all countries or in the majority of civilised countries was impossible because of the uneven maturation of the revolution in these countries.

“Unevenness of economic and political development,” Lenin wrote, “is an absolute law of capitalism. From this it follows that the victory of socialism is possible initially in a few, or even in a single capitalist country.

It was a new, complete theory of socialist revolution created by Lenin. It has enriched Marxism and advanced it, opened up the revolutionary perspective to the proletarians of individual countries, unleashed the initiative in attacking their own bourgeoisie, and strengthened their faith in the victory of the proletarian revolution.

In the period of imperialism, the formation of the capitalist system of world economy was completed, in connection with which individual countries were transformed into links in a single chain. Leninism teaches that, under the conditions of imperialism, the socialist revolution is first victorious not necessarily in those countries where capitalism is most developed and the proletariat constitutes the majority of the population, but above all in those countries which are the weakest link in the chain of world imperialism. The objective conditions of the socialist revolution have matured in the entire system of world capitalist economy. Under such conditions, the presence in this system of countries that are not sufficiently industrialised cannot be an obstacle to revolution. For the victory of the socialist revolution, it is necessary to have a revolutionary proletariat and a proletarian vanguard united in a political party, and to have in a given country a serious ally of the proletariat in the person of the peasantry, capable of following the proletariat in a determined struggle against imperialism.

In the epoch of imperialism, when the revolutionary movement is growing all over the world, the imperialist bourgeoisie enters into an alliance with all reactionary forces

without exception and makes every possible use of the survivals of serfdom to increase profits. For this reason, the abolition of the feudal-serf system is impossible without a resolute struggle against imperialism. Under these conditions, the proletariat becomes the hegemon of the bourgeois-democratic revolution, rallying the masses of the peasantry around itself for the struggle against serfdom and imperialist colonial oppression. To the extent that the anti-feudal and national liberation tasks are solved, the bourgeois-democratic revolution develops into a socialist revolution.

In the period of imperialism, the indignation of the proletariat is growing in the capitalist countries, the elements of a revolutionary explosion are accumulating, and a war of liberation against imperialism is developing in the colonial and dependent countries. The imperialist wars for the redivision of the world weaken the system of imperialism and strengthen the tendency to unite the proletarian revolutions in the capitalist countries with the national liberation movement in the colonies.

The proletarian revolution, which is victorious in one country, is at the same time the beginning of the world socialist revolution and a powerful basis for its further development. Lenin scientifically foresaw that the world revolution would develop through the revolutionary secession of a number of new countries from the system of imperialism, with the support given to the proletarians of these countries by the proletariat of the imperialist states. The very process of falling away from imperialism in a number of new countries will proceed all the more rapidly and thoroughly, the more thoroughly socialism is consolidated in the first country of the victorious proletarian revolution.

“The outcome of the struggle,” Lenin wrote in 1923, “depends ultimately on the fact that Russia, India, China, etc. constitute the gigantic majority of the population.

Namely this the majority of the population has been drawn with extraordinary speed in recent years into the struggle for their liberation, so that in this sense there cannot be a shadow of doubt about what the final solution of the world struggle will be. In this sense, the final victory of socialism is completely and unconditionally guaranteed.”<sup>80</sup>

## BRIEF CONCLUSIONS

*1. Imperialism is the special and final stage of capitalism. Imperialism is: (1) monopoly capitalism, (2) decaying or parasitic capitalism, (3) moribund capitalism, on the eve of the socialist revolution.*

*2. The decay and parasitism of capitalism are expressed in the retardation by the monopolies of technical progress and the growth of the productive forces, in the transformation of a number of bourgeois countries into rentier states living off the exploitation of the peoples of the colonies and dependent countries, in the rampant militarism, in the growth of parasitic consumption by the bourgeoisie, in the reactionary domestic and foreign policy of the imperialist states, in the bribery by the bourgeoisie of the imperialist countries of the small upper stratum of the working class. The decay of capitalism sharply intensifies the impoverishment of the working class and the toiling masses of the peasantry.*

*3. As a result of the action of the basic economic force of modern capitalism, the three main contradictions of imperialism are sharply sharpened: (1) the contradiction between labour and capital, (2) the contradiction between the imperialist powers, which are fighting for supremacy, and ultimately for world domination, and (3) the contradiction between the metropolises and the colonies.*

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<sup>80</sup> V. I. Lenin, *Better Fewer, But Better*, Works, vol. 33, p. 458.

*Imperialism is bringing the proletariat very close to the socialist revolution.*

*4. State-monopoly capitalism is the subordination of the state apparatus to capitalist monopolies in order to ensure maximum profits and strengthen the domination of the financial oligarchy. Signifying the highest stage of capitalist socialisation of production, state-monopoly capitalism brings with it a further intensification of the exploitation of the working class and the impoverishment and ruin of the broad working masses.*

*5. The law of uneven economic and political development of the capitalist countries in the period of imperialism weakens the united front of world imperialism. The unevenness of the maturation of the revolution excludes the possibility of the simultaneous victory of socialism in all countries or in the majority of countries. The possibility of breaking through the imperialist chain in its weak link is being created, the possibility of the victory of the socialist revolution initially in a few or even in a single country.*

## CHAPTER XX. THE GENERAL CRISIS OF CAPITALISM

### **The Essence of the General Crisis of Capitalism.**

Along with the growth of the contradictions of imperialism, the prerequisites for a general crisis of capitalism were accumulating. The extreme aggravation of the contradictions in the camp of imperialism, the clashes between the imperialist powers resulting in world wars, the combination of the class struggle of the proletariat in the metropolises and the national liberation struggle of the peoples in the colonies—all this leads to a sharp weakening of the world capitalist system, to breaks in the chain of imperialism and to the revolutionary falling away of individual countries from the capitalist system. The foundations of the doctrine of the general crisis of capitalism were developed by V. I. Lenin.

*The general* crisis of capitalism is an all-round crisis of the world capitalist system as a whole, characterised by wars and revolutions, by the struggle between moribund capitalism and growing socialism. The general crisis of capitalism encompasses all aspects of capitalism, both economics and politics. It is based on the ever-increasing disintegration of the world economic system of capitalism, on the one hand, and the growing economic power of the countries that have fallen away from capitalism, on the other hand.

The fundamental features of the general crisis of capitalism are: the split of the world into two systems - capitalist and socialist - and the struggle between them, the crisis of the colonial system of imperialism, the aggravation



of the problem of markets and the consequent emergence of chronic underutilisation of enterprises and chronic mass unemployment.

The uneven development of the capitalist countries in the epoch of imperialism in the course of time gives rise to a discrepancy between the existing division of markets, spheres of influence, and colonies and the changed correlation of forces of the principal capitalist states. On this basis, a sharp disturbance of the equilibrium within the world system of capitalism arises, leading to the split of the capitalist world into warring groups and to war between them. World wars weaken the forces of imperialism and facilitate the breakthrough of the imperialist front and the falling away of individual countries from the capitalist system.

The general crisis of capitalism covers an entire historical period, which is an integral part of the era of imperialism. As has already been pointed out, the law of uneven economic and political development of capitalist countries in the era of imperialism determines the different timing of the maturation of the socialist revolution in different countries. Lenin pointed out that the general crisis of capitalism is not a simultaneous act, but a long period of violent economic and political upheavals, of intensified class struggle, a period of 'the collapse of capitalism on its entire scale and the birth of socialist society'.<sup>81</sup> This determines the historical inevitability of the long-term coexistence of two systems - the socialist and capitalist.

The general crisis of capitalism began during the First World War and unfolded especially as a result of the Soviet Union's secession from the capitalist system. This was the *first stage of the general crisis of capitalism*. During the Second World War, the *second stage of the general crisis of capitalism* unfolded, especially after the fall away from the

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<sup>81</sup> V. I. Lenin, Report on the Revision of the Party's Programme and change of name at the Seventh Congress of the RCP (b), Works, vol. 27, p. 106.

capitalist system of the people's democratic countries in Europe and Asia.

## **The First World War and the Beginning of the General Crisis of Capitalism.**

The First World War was the result of the sharpening of the contradictions between the imperialist powers on the basis of the struggle for the redivision of the world and spheres of influence. Side by side with the old imperialist powers, new predators have grown, who are late for the division of the world. German imperialism appeared on the scene. Germany was later than a number of other countries in embarking on the path of capitalist development and came to the division of markets and spheres of influence when the world was divided among the old imperialist powers. However, by the beginning of the 20th century, Germany, having overtaken England in terms of industrial development, took second place in the world and first in Europe. Germany began to squeeze England and France on world markets. The change in the correlation of economic and military forces of the principal capitalist states raised the question of the redivision of the world. In the struggle for the redivision of the world, Germany, allied with Austria-Hungary and Italy, clashed with England, France, and tsarist Russia, which was dependent on them.

Germany sought to wrest part of the colonies from England and France, to oust England from the Middle East and put an end to her maritime domination, to deprive Russia of the Ukraine, Poland, and the Baltic states, and to subjugate all of Central and Southeastern Europe. In turn, England sought to put an end to German competition in the world market and to fully consolidate its dominance in the Middle East and the African continent. France's goal was to regain Alsace and

Lorraine, which had been conquered by Germany in 1870-1871, and to seize the Saar Basin from Germany. Conquest was also pursued by tsarist Russia and other bourgeois states participating in the war.

The struggle of the two imperialist blocs, the Anglo-French and the German, for the redivision of the world affected the interests of all the imperialist countries and therefore led to a world war, in which Japan, the United States and a number of other countries later took part. The First World War had an imperialist character on both sides.

The war shook the capitalist world to its deepest foundations. In terms of its scale, it has left far behind all previous wars in the history of mankind.

The war was a source of enormous enrichment for the monopolies. The capitalists of the United States have profited especially. The profits of all the American monopolies in 1917 were three or four times higher than in 1914. During the five years of the war (from 1914 to 1918), the American monopolies made more than \$35 billion in profits (before taxes). The largest monopolies have increased their profits tenfold.

The population of the countries that actively participated in the war was about 800 million people. About 70 million people were drafted into the army. The war consumed as many human lives as had died in all the wars in Europe in a thousand years. The number of people killed has reached 10 million, the number of wounded and maimed has exceeded 20 million. Millions of people died of hunger and epidemics. The war caused colossal damage to the national economy of the belligerent countries. The direct military expenditures of the belligerent powers during the entire war (1914-1918) amounted to \$208 billion (in the prices of the corresponding years).

During the war, the importance of the monopolies grew, and their subordination to the state apparatus increased. The state apparatus was used by the largest monopolies to ensure

maximum profits. Military “regulation” of the economy was carried out in order to enrich the largest monopolies. To this end, the working day was lengthened in a number of countries, strikes were banned, barracks and forced labour in enterprises were introduced. The main source of unprecedented growth in profits was state military orders at the expense of the budget. War expenditures absorbed a huge part of the national income during the war and were covered primarily by increasing taxes on the working people. Most of the military appropriations went to the monopolists in the form of payment for military orders, non-repayable loans, and subsidies. The prices of military orders provided the monopolies with huge profits. Lenin called military supplies legalised embezzlement. The monopolies profited by lowering the real wages of the workers by means of inflation, as well as by directly plundering the occupied territories. During the war, a rationing system was introduced in European countries, limiting the consumption of workers to starvation rations.

The war brought the poverty and suffering of the masses to the extreme, it sharpened class contradictions and gave rise to an upsurge in the revolutionary struggle of the working class and the toiling peasants in the capitalist countries. At the same time, the war, which was transformed from a European war into a world war, drew the colonies and dependent countries into its orbit and the rear of imperialism, which made it easier to unite the revolutionary movement in Europe with the national liberation movement of the peoples of the East.

The war weakened world capitalism. “A European war,” Lenin wrote at the time, “signifies a great historical crisis, the beginning of a new epoch. Like any crisis, the war exacerbated deep-seated contradictions and brought them to the surface.”<sup>[2]</sup> It gave rise to a mighty upsurge of the anti-imperialist, revolutionary movement.

## **The Victory of the Great October Socialist Revolution and the Split of the World into Two Systems: Capitalist and Socialist.**

The proletarian revolution broke through the front of imperialism first of all in Russia, which proved to be the weakest link in the chain of imperialism. Russia was the focal point of all the contradictions of imperialism. In Russia, the omnipotence of capital was intertwined with tsarist despotism, with vestiges of serfdom and colonial oppression against non-Russian peoples. Lenin called tsarism “military-feudal imperialism.”

Tsarist Russia was the reserve of Western imperialism as a sphere of investment for foreign capital, which held in its hands the decisive branches of industry, fuel and metallurgy, and as a pillar of Western imperialism in the East, connecting the finance capital of the West with the colonies of the East. The interests of tsarism and Western imperialism merged into a single tangle of imperialist interests.

The high concentration of Russian industry and the existence of such a revolutionary party as the Communist Party transformed the working class of Russia into the greatest force in the political life of the country. The Russian proletariat had such a serious ally as the poor peasants, who constituted the overwhelming majority of the peasant population. Under these conditions, the bourgeois-democratic revolution in Russia was bound to develop into a socialist revolution, to assume an international character and to shake the very foundations of world imperialism.

The international significance of the Great October Socialist Revolution lies in the fact that, first, it broke through the front of imperialism, overthrew the imperialist bourgeoisie in one of the largest capitalist countries, and for the first time in history put the proletariat in power; secondly, it not only undermined imperialism in the metropolises, but also struck at the rear of imperialism,

undermining its domination in the colonies and dependent countries; Thirdly, by weakening the power of imperialism in the metropolises and undermining its domination in the colonies, it has thereby called into question the very existence of world imperialism as a whole.

The Great October Socialist Revolution marked a radical change in the world history of mankind; It ushered in a new epoch - the epoch of proletarian revolutions in the countries of imperialism and the national liberation movement in the colonies. The October Revolution wrested one-sixth of the earth from the grip of the capitalists of the working people, which meant the division of the world into two systems: capitalist and socialist. The splitting of the world into two systems was the most striking expression of the general crisis of capitalism. As a result of the division of the world into two systems, a fundamentally new contradiction of world-historical significance has arisen - the contradiction between moribund capitalism and growing socialism. The struggle between the two systems - capitalism and socialism - has become crucial in the modern era.

Describing the general crisis of capitalism, J. V. Stalin said: "This means, first of all, that the imperialist war and its consequences have intensified the decay of capitalism and undermined its equilibrium, that we are now living in an epoch of wars and revolutions, that capitalism is no longer *the only* and *all-embracing* system of world economy, that side by side with *the capitalist* system of economy there exists a *socialist system of economy*. A system that grows, that succeeds, that opposes the capitalist system, and that by the very fact of its existence demonstrates the rottenness of capitalism, shakes its foundations."<sup>83</sup>

The first years after the war of 1914-1918 were a period of acute devastation in the economies of the capitalist

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<sup>83</sup> J. V. Stalin, Political Report of the Central Committee to the XVI Congress of the CPSU (b), Works, vol. 12, p. 246.

countries, a period of fierce struggle between the proletariat and the bourgeoisie.

As a result of the upheaval of world capitalism and under the direct influence of the Great October Socialist Revolution, a number of revolutions and revolutionary actions took place both on the continent of Europe and in the colonial and semi-colonial countries. This powerful revolutionary movement, the sympathy and support given to Soviet Russia by the working masses of the whole world, predetermined the collapse of all attempts by world imperialism to strangle the world's first socialist republic. In 1920-1921 the main capitalist countries were gripped by a deep economic crisis.

Having emerged from the post-war economic chaos, the capitalist world entered a period of relative stabilisation in 1924. The revolutionary upsurge was replaced by a temporary ebb of revolution in a number of European countries. It was a temporary, partial stabilisation of capitalism, achieved by intensifying the exploitation of the working people. Under the banner of capitalist "rationalisation," a brutal intensification of labour was carried out. Capitalist stabilisation inevitably led to an aggravation of the contradictions between the workers and the capitalists, between imperialism and the colonial peoples, and between the imperialists of different countries. The world economic crisis that began in 1929 put an end to capitalist stabilisation.

At the same time, the national economy of the USSR developed steadily along an ascending line, without crises and catastrophes. At that time, the Soviet Union was the only country that did not experience crises and other contradictions of capitalism. The industry of the Soviet Union has been growing at a pace unprecedented in history. In 1938 the industrial output of the U.S.S.R. was 908.8 per cent of that of 1913, while the industrial output of the USA was only 120 per cent, that of England 113.3 per cent, and that of

France 93.2 per cent. A comparison of the economic development of the U.S.S.R. and the capitalist countries clearly reveals the decisive advantages of the socialist economic system and the doom of the capitalist system.

The experience of the U.S.S.R. has shown that the working people can successfully govern the country, build and manage the economy without the bourgeoisie and against the bourgeoisie. Every year of peaceful competition between socialism and capitalism undermines and weakens capitalism and strengthens socialism.

The emergence of the world's first socialist state introduced a new moment in the development of the revolutionary struggle of the working people. The U.S.S.R. is a powerful centre of attraction around which the united front of the revolutionary and national liberation struggle of the peoples against imperialism is rallied. International imperialism seeks to strangle, or at least weaken, the socialist state. The imperialist camp is trying to resolve its internal difficulties and contradictions by fomenting war against the USSR. In the struggle against the intrigues of imperialism, the Soviet Union relies on its economic and military might and on the support of the international proletariat.

Historical experience has proved that in the struggle between the two systems, the socialist economic system is assured of victory over capitalism on the basis of peaceful competition. In its foreign policy, the Soviet state proceeds from the possibility of the peaceful coexistence of the two systems, capitalism and socialism, and firmly adheres to the policy of peace among peoples.



## The Crisis of the Colonial System of Imperialism.

An integral part of the general crisis of capitalism is the crisis of the colonial system of imperialism. Originating during the First World War, this crisis is widening and deepening. *The crisis of the colonial system of imperialism* consists in the sharp sharpening of the contradictions between the imperialist powers, on the one hand, and the colonies and dependent countries, on the other, and in the development of the national liberation struggle of the oppressed peoples of these countries, headed by the industrial proletariat.

In the period of the general crisis of capitalism, the role of the colonies as a source of maximum profits for the monopolies increases. The intensification of the struggle between the imperialists for markets and spheres of influence and the intensification of internal difficulties and contradictions in the capitalist countries are leading to an intensification of the imperialists' pressure on the colonies and to an increase in the exploitation of the peoples of the colonial and dependent countries.

The First World War, during which the export of industrial goods from the metropolises sharply decreased, gave a significant impetus to the industrial development of the colonies. In the period between the two wars, as a result of the intensified export of capital to the backward countries, capitalism continued to develop in the colonies. In connection with this, the proletariat grew in the colonial countries.

The total number of industrial enterprises in India increased from 2,874 in 1914 to 10,466 in 1939. In this regard, the number of factory workers has increased. The number of workers in the Indian manufacturing industry was 951,000 in 1914, and 1,751. 1,000 in 1939. The total number of workers in

India, including miners, railway and water transport workers, and plantation workers, was about 5 million in 1939. In China (excluding Manchuria), the number of industrial enterprises (with at least 30 workers) increased from 200 in 1910 to 2,500 in 1937, and the number of workers employed in them increased from 150,000 in 1910 to 2,750,000 in 1937, taking into account the more industrially developed Manchuria. workers in industry and transport (not counting small enterprises) in China on the eve of World War II amounted to about 4 million people. The industrial proletariat in Indonesia, Malaya, Africa and other colonies has grown significantly.

In the period of the general crisis of capitalism, the exploitation of the working class in the colonies intensifies. A commission examining the situation of Indian workers from 1929 to 1931 found that the family of an ordinary worker had earnings of only about half the cost of keeping a prisoner in the Bombay prisons per family member. The bulk of the workers fall into indentured debt dependence with usurers. Forced labour became widespread in the colonies, especially in the mining industry and agriculture (on plantations).

The growth of the working class in the colonial countries and the intensification of the national liberation struggle of the peoples of these countries fundamentally undermine the position of imperialism and signify a new stage in the development of the national liberation movement in the colonies. Lenin taught that after the victory of the Great October Socialist Revolution, which broke through the front of world imperialism, a new era of colonial revolutions had opened. Whereas in the past the national liberation struggle ended with the assertion of the power of the bourgeoisie and thereby cleared the way for the freer development of capitalism, now, in the epoch of the general crisis of capitalism, the national-colonial revolutions carried out under the leadership of the proletariat lead to the establishment of people's power, which ensures the development of the country along the road to socialism, bypassing the capitalist stage of development.

As has been pointed out, in spite of a certain development of industry, imperialism retards the economic development of the colonies. Heavy industry is still not developing in these countries, and they remain agrarian and raw material appendages to the metropolises. Imperialism preserves the remnants of feudal relations in the colonies, using them to intensify the exploitation of the oppressed peoples. Moreover, the well-known development of capitalist relations in the countryside, which destroys the natural forms of economy, only intensifies the degree of exploitation and pauperisation of the peasantry. The struggle against the survivals of feudalism is the basis of the bourgeois-democratic revolution in the colonial countries. The bourgeois-democratic revolution in the colonies is directed not only against feudal oppression, but also against imperialism. It is impossible to abolish feudal survivals in the colonies without the revolutionary overthrow of imperialist oppression. The colonial revolution is a combination of two streams of the revolutionary movement, the movement against feudal survivals and the movement against imperialism. In this connection, the largest force in colonial revolutions was the peasantry, which constituted the bulk of the population of the colonies.

The hegemon (leader) of the revolution in the colonies is the working class, which is a consistent fighter against imperialism, capable of rallying the vast masses of the peasantry and carrying the revolution through to the end. The alliance of the working class and the peasantry under the leadership of the working class is the decisive condition for the success of the national liberation struggle of the oppressed peoples of the colonial countries.

A certain section of the local bourgeoisie, the so-called comprador bourgeoisie, which acts as an intermediary between foreign capital and the local market, is a direct agent of foreign imperialism. As for the national bourgeoisie in the colonies, whose interests are being infringed upon by

foreign capital, it can support the struggle against imperialism at a certain stage of the revolution. However, the national bourgeoisie in the colonies is weak and inconsistent in the struggle against imperialism.

The Great October Socialist Revolution unleashed a number of powerful national liberation movements in China, Indonesia, India, and other countries. It ushered in a new epoch - the era of *colonial revolutions*, in which the leadership belongs to the proletariat.

### **Aggravation of the Problem of Markets, Chronic Underutilisation of Enterprises and Chronic Mass Unemployment.**

An inseparable feature of the general crisis of capitalism is the progressive aggravation of the problem of markets and the consequent chronic underutilisation of enterprises and chronic mass unemployment.

The aggravation of the problem of markets in the period of the general crisis of capitalism is caused, first of all, by the exclusion of individual countries from the world system of imperialism. Russia's falling away from the capitalist system, with its vast markets and sources of raw materials, could not but affect the economic situation in the capitalist world. The operation of the basic economic law of modern capitalism is inevitably accompanied by the growing impoverishment of the working people, whose standard of living the capitalists keep within the limits of the extreme minimum, which leads to the aggravation of the problem of markets. The aggravation of the problem of markets is also caused by the development in the colonies and dependent countries of their own capitalism, which successfully competes in the markets with the old capitalist countries. The development of the national liberation struggle of the

peoples of the colonial countries also complicates the position of the imperialist states in foreign markets.

As a result, instead of a growing market, as it was before, in the period between the two world wars, relative stability of markets was created with the growth of the production capabilities of capitalism. This could not but aggravate all capitalist contradictions to the extreme. 'This contradiction between the growth of productive capacity and the relative stability of markets is the basis for the fact that the problem of markets is now the main problem of capitalism. "The aggravation of the problem of sales markets in general, the aggravation of the problem of foreign markets in particular, and the aggravation of the problem of markets for the export of capital in particular—such is the present state of capitalism.

This, in fact, explains why underloading of factories is becoming a common occurrence."<sup>84</sup> Previously, mass underloading of factories took place only during economic crises. The period of general crisis of capitalism is characterised by chronic underloading of enterprises.

For example, during the boom period of 1925-1929, the productive capacity of the U.S. manufacturing industry was used to only 80 per cent. Between 1930 and 1934, the use of the production capacity of the manufacturing industry fell to 60 per cent. At the same time, it must be borne in mind that the bourgeois statistics of the USA, in calculating the productive capacity of the manufacturing industry, did not take into account enterprises that had been idle for a long time and assumed as a condition the operation of enterprises in one shift.

Closely related to the chronic underutilisation of enterprises is chronic *mass unemployment*. Before the First World War, the reserve army of labour grew in times of

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<sup>84</sup> J. V. Stalin, Political Report of the Central Committee to the XV Congress of the CPSU (B), Works, vol. 10, p. 275.

crisis, and in periods of boom it shrank to a comparatively small size. In the period of the general crisis of capitalism, unemployment assumes enormous proportions and remains at a high level even in the years of revival and growth. The reserve army of labour has been transformed into a permanent army of millions of unemployed.

At the time of the greatest industrial boom between the two World Wars, in 1929, the number of fully unemployed people in the United States was about 2 million, and in subsequent years, until the Second World War, it did not fall below 8 million people. In England, the number of fully unemployed people among the insured did not fall below 1.2 million per year between 1922 and 1938. Millions of workers were doing odd jobs, suffering from partial unemployment.

Chronic mass unemployment dramatically worsens the condition of the working class. Long-term unemployment is becoming the main form of unemployment. The existence of chronic mass unemployment makes it possible for the capitalists to enormously increase the intensity of labour in the enterprises, to throw out the workers who are already exhausted by excessive labour and to recruit new, stronger and healthier ones. In this regard, the “working age” of the worker and the duration of his work at the enterprise are greatly reduced. The uncertainty of employed workers about the future is growing. Capitalists use chronic mass unemployment to drastically reduce the wages of employed workers. The income of the working family is also decreasing due to the decrease in the number of working family members.

In the U.S.A., according to bourgeois statistics, the rise in unemployment from 1920 to 1933 was accompanied by a fall in the average annual wages of workers employed in industry, construction, and railroad transport, from \$1,483 in 1920 to \$915 in 1933, i.e., by 38.3 per cent. Unemployed family members are forced to support themselves on the meagre

wages of working family members. If the whole wage fund is applied not only to the employed, but to all workers, both employed and unemployed, it turns out that the earnings per worker (including the unemployed) have fallen from \$1,332 in 1920 to \$497 in 1933, i.e., by 62.7 per cent.

Chronic mass unemployment also has a serious impact on the condition of the peasantry. First, it narrows the domestic market and reduces the demand of the urban population for agricultural products. This leads to the deepening of agrarian crises. Secondly, it worsens the situation in the labour market and makes it more difficult for peasants who go bankrupt and flee to the cities in search of work to be involved in industrial production. As a result, agrarian overpopulation and pauperisation of the peasantry are increasing. Chronic mass unemployment, as well as chronic underutilisation of enterprises, is evidence of the progressive decay of capitalism and its inability to use the productive forces of society.

The intensification of the exploitation of the working class and the sharp decline in its standard of living in the period of the general crisis of capitalism lead to a further sharpening of the contradictions between labour and capital.

## **Deepening Crises of Overproduction and Changes in the Capitalist Cycle.**

The narrowing of markets and the development of mass chronic unemployment, which occur simultaneously with the growth of productive capacities, enormously sharpen the contradictions of capitalism and lead to the deepening of crises of overproduction and to essential changes in the capitalist cycle.

These changes boil down to the following: shorter cycle times, resulting in more frequent crises; the depth and

acuteness of crises are increasing, which is reflected in an intensification of the decline in production, an increase in unemployment, and so on. It is more difficult to get out of the crisis, which makes the duration of the crisis phase longer, the depression phase lengthened, and the recovery becomes less stable and less and less prolonged.

Before the First World War, economic crises usually occurred every 10 to 12 years and only sometimes after 8 years. In the period between the two world Wars - from 1920 to 1938, that is, in 18 years, there were three economic crises: in 1920-1921, in 1929-1933, and in 1937-1938.

The depth of decline in production increases from crisis to crisis. The output of the US manufacturing industry fell during the crisis of 1907-1908 (from the highest point before the crisis to the lowest point of the crisis) by 16.4%, during the crisis of 1920-1921 - by 23%, and during the crisis of 1929-1933 - by 47.1%.

The economic crisis of 1929-1933 was the deepest crisis of overproduction. This was due to the influence of the general crisis of capitalism. "The present crisis," said E. Thälmann, "has the character of a *cyclical* crisis within the framework of the *general crisis* of the capitalist system in the epoch of monopoly capitalism. Here we must understand the dialectical interplay between a general crisis and a periodic crisis.

On the one hand, the periodic crisis takes on sharp, unprecedented forms, since it proceeds on the basis of a general crisis of capitalism and is determined by the conditions of monopoly capitalism. On the other hand, the destruction caused by a periodic crisis again deepens and accelerates the general crisis of the capitalist system."<sup>85</sup>

The economic crisis of 1929-1933 engulfed all the countries of the capitalist world without exception. As a

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<sup>85</sup> E. Thälmann, Tasks of the People's Revolution in Germany. Report to the Plenum of the Central Committee of the KKE on January 15, 1931, 1931, p. 27-28.



result, it was impossible for some countries to manoeuvre at the expense of others. The crisis hit the largest country of modern capitalism - the United States of America - with the greatest force. The industrial crisis in the principal capitalist countries was intertwined with the agricultural crisis in the agrarian countries, which led to a deepening of the economic crisis as a whole. The crisis of 1929-1933 proved to be the deepest and most acute of all economic crises in the history of capitalism. Industrial production has fallen by 36 per cent throughout the capitalist world, and even more so in some countries. The turnover of world trade has fallen to one third. The finances of the capitalist countries have fallen into complete disarray.

In conditions of chronic mass unemployment, economic crises lead to a huge increase in the number of unemployed.

The percentage of completely unemployed at the time of the greatest decline in production, according to official data, was in 1932 in the United States 32%, in England-22%. In Germany, the percentage of fully unemployed trade union members in 1932 reached 43.8% and partially unemployed-22.6%. In absolute terms, the number of completely unemployed people in 1932 was: in the United States, according to official data, - 13.2 million people, in Germany-5.5 million people, in England-2.8 million people. In the entire capitalist world in 1933, there were 30 million people who were completely unemployed. The number of semi-unemployed people has reached a huge size. Thus, in the United States, the number of semi-unemployed people was 11 million in February 1932.

The chronic underutilisation of factories and plants and the extreme impoverishment of the masses *make it difficult to get out of* the crisis. Chronic underutilisation of enterprises limits the scope of renewal and expansion of fixed capital and hinders the transition from depression to revival and recovery. Chronic mass unemployment and a policy of high monopoly prices, which limit the expansion of

the sale of consumer goods, operate in the same direction. In this regard, the phase of the crisis is lengthening. Whereas earlier crises were overcome in one or two years, the crisis of 1929-1933 lasted more than four years.

The revival and upswing that followed the crisis of 1920-1921 were very uneven, and were more than once interrupted by partial crises. In the United States there were partial crises of overproduction in 1924 and 1927, and in England and Germany there was a considerable fall in production in 1926. After a depression of a special kind, there was a certain revival, which, however, did not lead to a flowering on a new and higher basis. By the middle of 1929 world capitalist industry had risen to only 1933 to 1937 per cent of the 95 level, after which a new economic crisis began, which arose in the United States and then spread to Britain, France and a number of other countries.

The volume of industrial output in 1938, compared with the level of 1929, decreased in the United States to 72%, in France - to 70%. The total volume of industrial production in the capitalist world in 1938 was 10.3% lower than in 1937.

The crisis of 1937-1938 differed from the crisis of 1929-1933 primarily in that it did not arise after a phase of industrial prosperity, as was the case in 1929, but after a depression of a special kind and a certain recovery. Further, this crisis began in the period when Japan unleashed the war in China, and Germany and Italy transferred their economies to the rails of a war economy, when all the other capitalist countries began to reconstruct themselves on a war footing. This meant that capitalism had far fewer resources for a normal way out of this crisis than it had during the crisis of 1929-1933.

Under the conditions of the general crisis of capitalism, agrarian crises are becoming more frequent and deepening. Following the agrarian crisis of the first half of the 20s, a new deep agrarian crisis began in 1928, which lasted until World War II. The relative overproduction of agricultural

products caused a sharp fall in prices, which worsened the situation of the peasantry.

In the United States, in 1921, the price index received by farmers fell to 58.5% of the level of 1920, and in 1932-to 43.6% of the level of 1928. In this regard, the level of agricultural production has sharply decreased and the incomes of farmers have fallen. Field production in the United States declined in 1934 to 67.9% of the 1928 level and to 70.6% of the 1920 level.

The ruin and pauperisation of the main mass of the peasantry are causing the growth of revolutionary sentiments among them and are pushing the peasantry to the path of struggle against capitalism under the leadership of the working class.

The course of capitalist reproduction and the capitalist cycle under the conditions of the general crisis of capitalism are greatly influenced by the arms race and world wars, which are used by the monopolies to ensure maximum profits. At first, military-inflationary factors may lead to a temporary revival of the situation. Preparations for war can slow down the entry of a capitalist country into an economic crisis. But wars and the militarisation of the economy cannot save the capitalist economy from crises. Moreover, they are the most important factor that deepens and exacerbates economic crises. World wars lead to a huge destruction of productive forces and social wealth: factories and plants, stocks of material values, human lives. Wars, by intensifying the impoverishment of the working people and the unevenness and disproportionality of the development of the capitalist economy, prepare the conditions for new, deeper crises of overproduction.

In the same way, the arms race and the preparations for war, by temporarily postponing the onset of the crisis, create the conditions for the onset of the crisis in an even more acute form. The militarisation of the economy means the expansion of the production of weapons and equipment for

the army at the expense of the narrowing of the production of means of production and consumer goods, an exorbitant increase in taxes and an increase in the cost of living, which inevitably leads to a sharp reduction in the consumption of the population and prepares the onset of a new economic crisis.

The intensification of decay in the period of the general crisis of capitalism is reflected in the general decline in the rate of production. The average annual growth rate of industrial production in the capitalist world was 1890.1913 per cent for the period from 3 to 7, 1913.1929 per cent for the period from 2 to 4, and for the period from 1929 to 1938 production did not grow, but decreased.

In the period of the general crisis of capitalism, the monopoly bourgeoisie, in an effort to delay the collapse of the capitalist system and to preserve its rule, is waging a frenzied attack on the standard of living of the working people and is imposing police methods of management. In all the principal capitalist countries the development of state-monopoly capitalism is intensifying.

No longer able to rule by the old methods of parliamentarism and bourgeois democracy, the bourgeoisie established fascist regimes in a number of countries - Italy, Germany, Japan and some others. *Fascism* is the open terrorist dictatorship of the most reactionary and aggressive groups of finance capital. Fascism aims at smashing the organisations of the working class at home and suppressing all progressive forces, and externally at preparing and waging a war of conquest for world domination. Fascism achieves these goals by means of terror and social demagoguery.

Thus, the world economic crisis of 1929-1933 and the crisis of 1937-1938 led to a particularly sharp sharpening of the contradictions both within the capitalist countries and between them. The imperialist states sought a way out of these contradictions by preparing for a war for a new division of the world.

## BRIEF CONCLUSIONS

1. *The general crisis of capitalism is an all-round crisis of the world capitalist system as a whole. It encompasses both economics and politics. It is based on the ever-increasing disintegration of the world economic system of capitalism, on the one hand, and the growing economic power of the countries that have fallen away from capitalism, on the other hand.*

2. *The general crisis of capitalism embraces an entire historical period, the content of which is the collapse of capitalism and the victory of socialism on a world scale. The general crisis of capitalism began during the First World War and especially as a result of the Soviet Union's secession from the capitalist system.*

3. *The Great October Socialist Revolution marked a radical turn in the world history of mankind from the old, capitalist world to the new, socialist world. The splitting of the world into two systems - the system of capitalism and the system of socialism - and the struggle between them is the main sign of the general crisis of capitalism. With the division of the world into two systems, two lines of economic development have been determined: while the capitalist system is becoming more and more entangled in the socialist system is developing steadily along an ascending line, without crises or catastrophes.*

4. *An integral part of the general crisis of capitalism is the crisis of the colonial system of imperialism. This crisis consists in the development of the national liberation struggle, which is shaking the foundations of imperialism in the colonies. At the head of the national liberation struggle of the oppressed peoples stands the working class. The Great October Socialist Revolution unleashed the revolutionary activity of the oppressed peoples and ushered in the era of colonial revolutions led by the proletariat.*

5. Under the conditions of the general crisis of capitalism, as a result of the falling away from the imperialist system of individual countries, the intensification of the impoverishment of the working people, and also as a result of the development of capitalism in the colonies, the problem of the market is becoming more acute. A characteristic feature of the general crisis of capitalism is the chronic underutilisation of enterprises and chronic mass unemployment. Under the influence of the aggravation of the market problem, chronic underutilisation of enterprises, and chronic mass unemployment, economic crises deepened and significant changes in the capitalist cycle took place.

## CHAPTER XXI. THE DEEPENING OF THE GENERAL CRISIS OF CAPITALISM AFTER THE SECOND WORLD WAR

### **The Second World War and the Second Stage of the General Crisis of Capitalism.**

Lenin scientifically foresaw that the First World War would be followed by other wars caused by imperialist contradictions. “Everyone sees”—he said after the end of the war of 1914-1918, “that a new war of the same kind is inevitable if the imperialists and the bourgeoisie remain in power.”<sup>86</sup>

The distribution of spheres of influence among the imperialist countries as a result of the First World War proved to be even more precarious than it had been before the war. The role of Britain and France in world industrial production has been considerably reduced, and their positions on the world capitalist market have deteriorated. The American monopolies, which had become very rich during the war, expanded their productive capacities and came out on top in the capitalist world in terms of the export of capital. Germany, which had been defeated in the First World War, quickly rebuilt its heavy industry with the help of American as well as British loans and began to demand a redistribution of spheres of influence. Japan has embarked on a path of aggression against China. Italy laid claim to a number of foreign colonial possessions.

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<sup>86</sup> V. I. Lenin, Speech at the Solemn Meeting of the Moscow Soviet Dedicated to the Anniversary of the Third International, Works, vol. 30, p. 398.

Thus, the operation of the law of uneven development of the capitalist countries in the period after the First World War led to a new sharp violation of the equilibrium within the world capitalist system. Once again, the capitalist world split into two hostile camps, leading to World War II.

The Second World War, prepared by the forces of international imperialist reaction, was unleashed by a bloc of fascist states - Germany, Japan and Italy. The ruling circles of the U.S.A., Great Britain and France, seeking to direct the aggression of German fascism and Japanese imperialism against the Soviet Union, connived at the aggressors in every possible way and encouraged them in every possible way to unleash war. This war was a war of conquest and plundering on the part of Germany and her allies in brigandage. It was a just, liberating war on the part of the Soviet Union and other peoples who were victims of the fascist attack.

In terms of the scope of military operations, the number of armed forces and the use of military equipment, the number of human casualties and the scale of destruction of material values, the Second World War far surpassed the first. Many countries in Europe and Asia have suffered huge human losses and unprecedented material damage.

The direct military expenditures of the States that participated in the war reached approximately one thousand billion dollars, and this does not include damage from the destruction caused by military actions. The economy and culture of many peoples of Europe and Asia were greatly damaged by the predatory management of the German-fascist and Japanese invaders.

The war led to the further development of state-monopoly capitalism. The measures taken by the bourgeois states, which were completely subordinated to monopolies, were aimed at ensuring monopolistically high, maximum profits for the magnates of finance capital. This goal was served by such measures as providing the largest monopolies with billions of military orders on extremely favourable terms, transferring state-owned enterprises to monopolies for a song, distributing



scarce raw materials and labour to the interests of leading companies, forcibly closing hundreds or thousands of small and medium-sized enterprises or subordinating them to a few military-industrial firms.

The military expenditures of the belligerent capitalist powers were covered by taxes, loans, and the issue of paper money. In 1943 and 1944, in the major capitalist countries (the USA, Great Britain, and Germany), taxes absorbed about 35 per cent of the national income. Inflation has caused a huge rise in prices. The lengthening of the working day, the militarisation of labour, the increase in the tax burden and the high cost of living, and the sharp fall in the level of consumption - all this meant an even greater intensification of the exploitation of the working class and the main masses of the peasantry.

The monopolies made fabulous profits during the war. Even according to the understated official figures, the profits of the American monopolies rose from \$3.3 billion in 1938 to \$17.2 billion in 1941, \$21.1 billion in 1942, \$25.1 billion in 1943, and \$24.3 billion in 1944.

During the war and in the postwar period, the economic and political omnipotence of the monopolies and their oppression in the capitalist countries increased still further. The scope of operations of American monopolies, such as the Steel Trust, the DuPont chemical concern, the automobile companies General Motors and Chrysler, the electrical monopoly General Electric, and others, has especially expanded. General Motors, for example, currently has 102 plants in the United States and 33 plants in 20 other countries; These enterprises employ about half a million workers.

World War II ended with the complete defeat of the fascist states by the armed forces of the countries of the anti-Hitler coalition. The decisive role in this defeat was played by the Soviet Union, which saved civilisation, freedom, independence and the very existence of the peoples of Europe from the fascist enslavers. The Great Patriotic War of the Soviet Union showed the strength and power of the world's first socialist power and the enormous advantages of the socialist social and state system.

The war led to a further weakening of the world capitalist system. Each of the two capitalist coalitions that clashed with each other during the war hoped to defeat the other and achieve world domination. In this, they were looking for a way out of the general crisis. Both capitalist groups counted on the destruction or significant weakening of the Soviet Union in the course of the war, on the strangulation of the workers' movement in the metropolises and the national liberation movement in the colonies. The United States sought to disable its most dangerous competitors, Germany and Japan, to seize world markets and sources of raw materials, and to conquer world domination.

Thanks to the heroic struggle of the Soviet people, the economic and military might of the U.S.S.R., and the rise of the anti-imperialist national liberation movement in Europe and Asia, the imperialist calculations failed. Instead of destroying or weakening the Soviet Union, the war led to its strengthening and growth of its international prestige. Instead of weakening and defeating the revolutionary movement, the war led to the falling away of new countries from the capitalist system. The defeat of the fascist aggressors unleashed the forces of the people's liberation movement in Europe and Asia. 'In the new conditions that have been created, especially in view of the decisive role of the Soviet Union in this war, it has become possible for a number of countries to turn from the capitalist path of development to a new path, the path of creating and developing people's democratic states, which took place in the post-war period. This marked the beginning of a new stage in the development of international socialism'.<sup>87</sup>

The peoples of a number of countries in Central and Southeastern Europe—Poland, Czechoslovakia, Romania, Hungary, Bulgaria, and Albania—threw off the yoke of reactionary regimes, established people's democratic

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<sup>87</sup> V. M. Molotov, Speech at the XIX Congress of the Communist Party of the Soviet Union, Pravda, October 6, 1952.

republics, carried out radical socioeconomic transformations, and embarked on the path of building socialism. The serious defeat of world imperialism and the outstanding success of the camp of peace and democracy was the formation of the German Democratic Republic, which is the bulwark of the democratic forces of the German people in the struggle for the creation of a united, democratic and peace-loving Germany.

Instead of further enslavement of the peoples of the colonies and dependent countries, there was a new and powerful upsurge of the national liberation struggle in these countries. The historic victory of the great Chinese people wrested a vast country of 600 million people from imperialism. As a result of the falling away from capitalism of a number of countries in Europe and Asia, more than a third of humanity has now been freed from the capitalist yoke.

All this led to a further change in the balance of power between socialism and capitalism—in favour of socialism to the detriment of capitalism. The cause of social progress, peace and democracy is now being defended together with the Soviet Union by the European People's Democracies, the People's Republic of China and the German Democratic Republic. In addition, many millions of people are waging an active struggle against imperialism and for social and national liberation in the capitalist countries and in the colonial countries still subject to capital.

In the period of the Second World War, especially after the fall away from the capitalist system of the people's democracies in Europe and Asia, the *second stage* of the general crisis of capitalism unfolded, characterised by a further deepening and intensification of this crisis.

## **The Formation of Two Camps in the International Arena and the Collapse of the Single World Market.**

The countries of Europe and Asia, which fell away from the capitalist system after the Second World War, formed together with the Soviet Union a single and powerful socialist camp opposed to the camp of capitalism. The two camps - the socialist camp led by the USSR and the capitalist camp led by the USA - embody two lines of economic development. One line is the line of the growth of economic power, the continuous upswing of the peaceful economy and the steady improvement of the well-being of the working masses of the Soviet Union and the people's democracies. The other line is the line of the economy of capitalism, the productive forces of which are marking time, it is the line of militarisation of the economy, of the lowering of the standard of living of those who are dying in the conditions of the ever-deepening general crisis of the world capitalist system.

The two camps, socialist and capitalist, embody two opposing courses of international politics. The ruling circles of the U.S.A. and other imperialist states are preparing for a new world war and fascisizing the internal life of their countries. The socialist camp is waging a struggle against the threat of new wars and imperialist expansion, for the eradication of fascism, and for the strengthening of peace and democracy.

The Second World War and the formation of two camps in the international arena had as their most important economic consequence the disintegration of a single, all-encompassing world market. "The economic result of the existence of two opposing camps was that the single all-encompassing world market collapsed, as a result of which we now have two parallel world markets, also opposing each

other”.<sup>88</sup> This determined the further deepening of the general crisis of capitalism.

In the postwar period, the countries of the socialist camp have come together economically and have established close economic cooperation and mutual assistance. Economic cooperation among the countries of the socialist camp is based on a sincere desire to help each other and achieve a common economic upsurge. The main capitalist countries—the United States, Great Britain, and France—tried to impose an economic blockade on the Soviet Union, China, and the European People’s Democracies in the hope of strangling these countries. But in doing so, they contributed, against their will, to the formation and consolidation of a new, parallel world market. Thanks to the crisis-free development of the economies of the countries of the socialist camp, the new world market knows no difficulties in sales, and its capacity is constantly growing.

As a result of the collapse of the single world market, the relative stability of markets that existed at the first stage of the general crisis of capitalism came to an end. The second stage of the general crisis of capitalism is characterised by a reduction in the capacity of the world capitalist market. This means that the sphere of application of the forces of the principal capitalist countries (the USA, Britain, and France) to world resources is inevitably shrinking, and the conditions of the world market for these countries are deteriorating. In the postwar period, the chronic underutilisation of enterprises in the capitalist countries increased. This is especially true of the United States, despite the fact that since the end of World War II, the vast production capacity of various U.S. industries has been partially mothballed and partially destroyed.

The narrowing of the sphere of application of the forces of the principal capitalist countries to world resources is causing an intensification of the struggle between the

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<sup>88</sup> J. V. Stalin, *Economic Problems of Socialism in the USSR*, pp. 30-31.

countries of the imperialist camp for markets, for sources of raw materials, for spheres of investment of capital. The imperialists, and above all the American imperialists, are trying to overcome the difficulties that have arisen as a result of the loss of huge markets by intensifying expansion at the expense of their competitors, acts of aggression, the arms race, and the militarisation of the economy. But all these measures lead to an even greater deepening of the contradictions of capitalism.

### **The Aggravation of the Crisis of the Colonial System of Imperialism.**

The second stage of the general crisis of capitalism is characterised by a sharp aggravation of the crisis of the colonial system. The imperialist powers seek to shift the burdens caused by the war and its consequences onto the peoples of the dependent countries. The standard of living of the working population of the colonial world is catastrophically declining. All this intensifies the contradictions between the colonies and the metropolises. Under the banner of “aid” to the underdeveloped countries, the colonies and spheres of influence of the Western European countries are systematically infiltrated and implanted by American monopolies, which leads to the further plundering of the enslaved peoples and to the deepening of the contradictions between the imperialist powers. At the same time, the industrial development caused by the war in a number of colonial and semi-colonial countries contributed to the growth of the proletariat, which is increasingly opposed to imperialism.

Under the influence of these conditions, the national liberation struggle of the peoples of the colonial world intensified. The defeat of the armed forces of German and

Japanese imperialism has created a new and favourable situation for the success of this struggle.

As a result of the Second World War and the new upsurge of the national liberation struggle in the colonial and dependent countries, the colonial system of imperialism is actually disintegrating. This disintegration is characterised, first of all, by the breakthrough of the imperialist front in a number of colonial countries and by the falling away of these countries from *the world system of imperialism*. The sphere of colonial exploitation is shrinking more and more.

Major historical changes have occurred in Asia and the Pacific Ocean, an area of the globe where more than a billion people live. Foremost among these changes is the victory of the great Chinese people, led by the Chinese Communist Party, over the combined forces of American and Japanese imperialism and internal feudal reaction. The victory of the people's revolution in China abolished the rule of feudal exploiters and foreign imperialists in the world's largest semi-colonial country. The establishment of the *People's Republic of China* was a severe blow to the entire system of imperialism after the Great October Socialist Revolution in Russia and the victory of the Soviet Union in World War II. People's republics arose in *Korea* and *Indo-China*.

The struggle of the imperialist powers for supremacy in China created a special tension in international relations in Asia and the Pacific. Today, China has become an independent great power with full national sovereignty and an independent policy in the international arena. The People's Republic of China, which is bound by close ties of friendship and cooperation with the Soviet Union and all the other countries of the socialist camp, is a powerful factor in peace and democracy in the Far East and throughout the world.

Significant changes have also taken place in other countries in Asia and the Pacific. Under the pressure of the national liberation movement in India, which has a

population of more than 440 million, British imperialism was forced to remove its colonial administration from that country. India was divided into two dominions, India and Pakistan, with power passing into the hands of the local ruling classes; the British colony of Ceylon was also transferred to the status of a dominion. Under similar conditions, Holland had to recognize the independence of its former colony of Indonesia, and England had to recognize the independence of Burma. British imperialism strives to maintain its complete economic domination over India, Pakistan, Ceylon and Burma, and to keep these countries in the position of its semi-colonies. At the same time, American monopolies are trying to infiltrate these countries. However, the policy of the imperialist powers is meeting with growing resistance on the part of the peoples of these countries, who are waging a struggle for national freedom and independence and for the elimination of the economic and political fetters of imperialism. In a number of enslaved countries, the development of the people's liberation movement led to a protracted armed struggle of the popular masses against the colonialists (Malaya and the Philippines).

The peoples of Africa (Madagascar, the Gold Coast, Kenya, and the Union of South Africa), which were the most oppressed by imperialist oppression, joined the national liberation struggle. Resistance to the imperialists is growing in the countries of the Near and Middle East (Iran, Egypt) and North Africa (Tunisia, Morocco). In the countries of Latin America, resistance to the economic management and political oppression of the financial oligarchy of the United States is steadily growing.

In their desire to retard the growth of the national liberation movement, the imperialist powers supplement the methods of violence with methods of deception, declaring the fictitious "independence" of certain colonies, while maintaining their complete de facto domination of these countries. The imperialists are supported in carrying out



these manoeuvres by the forces of feudal reaction (the big landlords and other feudal lords) and by the antinational strata of the big bourgeoisie of the colonial countries, which have grown together with foreign capital.

As a bulwark of reaction and aggression throughout the world, U.S. imperialism is leading the imperialist powers in their attempts to crush the national liberation movements of the oppressed peoples by both deception and force of arms.

The reactionary attempts of the imperialists to thwart the great process of the national and social revival of the peoples of Asia on anti-imperialist and anti-feudal principles invariably fail. The failure of the U.S. armed intervention in Korea and the collapse of the designs of French and U.S. imperialism in Indo-China have clearly shown that the days when the imperialists could impose their will on the peoples of Asia by force of arms and suppress their every desire for freedom and independence are irrevocably over.

The national liberation movement of the oppressed peoples acquired a number of new distinctive features. In most of the colonial countries, the leading role of the proletariat and the Communist Parties grew and strengthened. This is a decisive condition for the success of the struggle of the enslaved peoples to expel the imperialists and to bring about democratic reforms. Under the leadership of the working class, a united national democratic front is being formed, and the alliance between the working class and the peasantry in the anti-imperialist and anti-feudal struggle is strengthening.

The incipient disintegration of the colonial system of imperialism further intensifies the economic and political difficulties of the capitalist countries and shakes the foundations of capitalism as a whole.

## **Intensification of the Unevenness of the Development of Capitalism. The Expansion of U.S. Imperialism.**

As a result of the uneven development of the capitalist countries, the Second World War led to a further aggravation of this unevenness. The three imperialist powers - Germany, Japan and Italy - were militarily defeated. France suffered great damage, and England was seriously weakened. At the same time, the U.S. monopolies, having profited from the war, strengthened their position in the capitalist world. After the defeat of the fascist aggressors in World War II, the centre of world reaction and aggression shifted to the United States of America.

Taking advantage of the weakening of their competitors, the American monopolies, in pursuit of maximum profits in the post-war period, seized a significant share of the world capitalist market.

By the end of 1949, U.S. investment abroad exceeded the sum of foreign investment by all the other capitalist countries combined. The total amount of American capital invested abroad increased from \$11.4 billion at the end of 1939 to \$39.5 billion at the end of 1953. The total amount of British capital invested abroad decreased from £3.5 billion in 1938 to £2 billion in 1951.

At first, American expansion was under the banner of "helping the post-war reconstruction of Europe." The Marshall Plan, which was in effect from 1948 to 1952, was aimed at enslaving the Western European countries and strangling their industry, turning these countries into markets for stale American goods, eliminating the national sovereignty of these countries, drawing them into the orbit of aggressive American policy, and accelerating the militarisation of their economies. The Marshall Plan served as the basis for the North Atlantic Pact, an aggressive alliance created in 1949 by U.S.

imperialism with the active support of the British ruling circles in order to establish its world domination. After the expiration of the Marshall Plan, it was replaced by the "mutual security" program, according to which American "assistance" is given only for the arms race, for the preparation of a new war. In so doing, U.S. imperialism has finally thrown off the mask of the "restorer" of the economies of the capitalist countries.

The calculations of the American financial oligarchy to establish its domination of the world capitalist market have failed. In the shrinking world capitalist market, the United States had to face increased competition from Western European countries, primarily England. The struggle for markets was further intensified by the fact that five or six years after the end of the war, the monopolies of West Germany and Japan re-joined the struggle. The U.S. imperialists are trying to compensate for their losses from the contraction of the world capitalist market by unrestrained economic and political expansion, by the complete or partial subjugation of other capitalist countries, and by the actual destruction of their national independence.

During the war, American exports grew strongly at the expense of a sharp drop in the exports of European countries, especially England. In 1945 the share of US exports in the total exports of the capitalist countries was 40.1 per cent, as against 12.6 per cent in 1937, while the share of Britain fell from 9.9 per cent in 1937 to 7.4 per cent in 1945. and England's share was 1953.21 per cent in the same year.

The American monopolies are striving to increase the export of commodities to other countries of the capitalist camp in every possible way, using for this purpose both the onerous terms of loans granted to these countries and outright dumping. At the same time, the U.S. protects its domestic market from the import of foreign goods by imposing extremely high customs duties on these goods. This one-sided nature of American foreign trade gives rise to

chronic dollar deficits in other capitalist countries, i.e., a shortage of dollars to pay for goods imported from the United States.

The economic expansion of the United States is leading to the rupture of historically established multilateral economic ties between countries. U.S. imperialism deprives Western Europe of the opportunity to receive food and raw materials from the countries of Eastern Europe, which supplied these goods in exchange for Western European industrial products. One of the factors aggravating the post-war difficulties of the capitalist economy is the fact that the imperialists themselves have closed their access to the world market of the democratic camp, reducing trade with the Soviet Union, the People's Republic of China, and the European countries of people's democracy to almost nothing.

In the years after World War II (1946-1953), U.S. exports averaged \$13.3 billion a year, while imports averaged \$8.2 billion; The U.S. imported an average of \$1.3 billion worth of goods a year from Western Europe, and exported about \$4 billion worth of goods to these countries. Over the past eight years, the gap between U.S. exports to Western Europe and imports from those countries to the U.S. has amounted to \$21.6 billion.

In 1951, the trade turnover of the United States with the countries that are now members of the democratic camp decreased by a factor of 1937 compared with 1913, the trade turnover of Great Britain with these countries by a factor of six, and that of France by a factor of more than four.

U.S. imperialism appears as an international exploiter and enslaver of the peoples, as a force that disorganizes the economies of the other capitalist countries. The expansion of the American monopolies is dealing a serious blow to the interests of the British and French monopolies. American monopolies, under the guise of "aid" and by granting credits, are infiltrating the economies of these countries, trying to turn it into an appendage of the U.S. economy and seizing

important positions in the British and French colonies. Britain and France, which are imperialist countries for whom cheap raw materials and secure markets are of paramount importance, cannot endure this situation indefinitely. The vanquished countries - West Germany, Japan, Italy - which have found themselves under the American yoke cannot reconcile themselves to the miserable fate to which they have been condemned by the American pretenders to world domination.

As early as 1920, Lenin, exposing the foundations of the contradictions between the United States and the other capitalist powers, said: "America is strong, everyone owes it now, everything depends on it, it is more and more hated, it robs everyone... America cannot reconcile with other countries because there is the deepest economic discord between them, because America is richer than others."

After the Second World War, the unevenness of development within the narrowed camp of imperialism grew even more, which inevitably leads to a further *increase in contradictions* between the capitalist countries. Chief among them are the contradictions between the *United States and England*. These contradictions are manifested in the open struggle between the American and British monopolies for markets for goods (especially in the countries of the British Empire—Australia, Canada, India, and others), for sources of raw materials (primarily oil, rubber, non-ferrous and rare metals), and for spheres of influence in general (in Western Europe, the Near East, and the Far East). in Latin America). The aggressive blocs of imperialist states formed by the United States, directed against the countries of the socialist camp, cannot eliminate the antagonisms and conflicts between the members of these blocs on the basis of the struggle for monopolistically high profits with a reduced amount of territory subject to capital. From this it follows that in the present period Lenin's thesis on the *inevitability of wars between capitalist* countries, which is conditioned by

the law of uneven development of the capitalist countries in the epoch of imperialism, remains in force.

Immediately after the end of World War II, the aggressive ruling circles of the imperialist powers, primarily the United States, began to pursue a policy of preparing for a third world war. The servants of the monopolies seek to deceive the peoples by asserting that the inevitability of war is due to the existence in the modern world of two opposite systems - capitalism and socialism. The facts of history refute this fabrication. The First World War was caused by the sharpening of imperialist contradictions in a world in which the capitalist system still reigned supreme. The Second World War began with a war between two coalitions of capitalist countries. In the period since the Second World War, the countries of the socialist camp, led by the Soviet Union, have firmly and consistently defended the cause of preserving and strengthening peace among peoples, proceeding from the position that the capitalist and socialist systems can coexist peacefully, competing economically with each other. The policy of the Soviet Union and the people's democracies aimed at the development of peaceful cooperation between states, regardless of their social structure, enjoys the support of the working masses and all the champions of peace throughout the globe.

The peace movement unites hundreds of millions of people in all countries, including many millions of people in the capital countries. Representatives of different social groups, different political and religious views unite on the basis of protecting the peace and security of peoples. The new world war now being prepared by the imperialists can be averted if the peoples take the cause of preserving peace into their own hands and defend it to the end. The democratic forces of the world are powerful enough to prevent war, if only they act in concert and are able to tie

the hands of the seekers of military gain and pretenders to world domination”.<sup>90</sup>

## **Militarisation of the Economies of Capitalist Countries.**

The deepening of the general crisis of the world capitalist system after the Second World War finds its expression in the further change of the capitalist cycle resulting from the disintegration of the world market.

Under the conditions of the disintegration of the world market and the narrowing of the sphere of application of the forces of the main capitalist countries to world resources, the dominant monopolies are increasingly resorting to the militarisation of the economy as a means of achieving a certain increase in production and ensuring the highest profits. However, the militarisation of the economy inevitably leads to an even greater aggravation of the insoluble contradictions of the capitalist economy.

The economic essence of the militarisation of the economy lies in the fact that, first, an increasing part of the finished products and raw materials is absorbed by unproductive military consumption or is deadened in the form of huge strategic reserves; Secondly, the expansion of war production is accomplished at the expense of a further reduction in the wages of the workers, the ruin of the peasantry, an increase in the tax burden, and the plundering of the peoples of the colonial and dependent countries. All this significantly reduces the purchasing power of the population, reduces the demand for industrial and

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<sup>90</sup> William Z. Foster, *An Outline of American Political History*, 1953, p. 831.

agricultural products, and leads to a sharp reduction in civilian production. Thus, the militarisation of the economies of the capitalist countries, deepening the disproportion between the productive capabilities and the declining effective demand of the population, inevitably leads to a new economic crisis.

After the end of the Second World War, the industry of the United States, without passing through the phase of general growth, after a brief and weak recovery, was already hit by the economic crisis at the end of 1948, which deepened throughout 1949.

The expansion of military production in the USA and other countries of the Atlantic bloc, which intensified especially since the middle of 1950, after the beginning of the war of aggression of US imperialism against the Korean people, made it possible for the capitalist countries to raise the level of industrial production for a while. But this was achieved at the cost of the one-sided development of the national economy of the capitalist countries as a result of its militarisation. In the second half of 1953, a new economic crisis began to grow in the United States, which led to a reduction in the volume of industrial production, a significant increase in stocks in warehouses, a reduction in orders, and an increase in the number of fully and partially unemployed.

The militarisation of the economies of the capitalist countries, the unrestrained arms race in the post-World War II period, is one of the most striking manifestations of the intensification of parasitism and the decay of capitalism. It leads to an enormous increase in the profits of the monopolies. The share of direct and indirect expenditures on the arms race in state budgets is constantly increasing. The growth of state budgets, which cover an ever larger share of the national income, is accompanied by an increase in their deficit, an increase in the state debt, a breakdown in the entire fiscal, financial and monetary system of the capitalist countries, and an overflow of the channels of money



circulation with paper money, the purchasing power of which is systematically declining.

According to official, clearly understated data, the profits of American monopolies increased from \$ 3.3 billion in 1938 to \$ 41.9 billion in 1953, that is, 13 times. In the eight years after the war, the profits of American monopolies totalled more than \$ 280 billion. In England, the profits of joint-stock companies in 1951 amounted to 2,953 million pounds, compared with 828 million in 1938.

During the post-war years (1946-1953), the total amount of US military spending, including spending on arming the countries participating in the North Atlantic Alliance - and on the production of atomic bombs, amounted to almost \$ 250 billion. Direct military spending in the United States has averaged more than \$ 50 billion a year over the last three years (1952-1954), or 72% of the total budget, compared to \$ 953 million, or 12% of the total budget in the three years before World War II. In England, military spending increased from 173 million to 1,503 million pounds, respectively, accounting for 36% of the total budget, compared to 18% in the pre-war period. In France, military spending on average over the past 5 years has exceeded one-third of the total budget.

The purchasing power of the US dollar in 1953 was only 34.7% compared to 1939, the purchasing power of the British pound sterling-31.3%, the French franc - 2.8%, and the Italian lira - 1.8%.

Even during the First World War, Lenin, noting the rapid economic development of the United States, emphasised that “precisely because of this, the parasitic features of modern American capitalism were particularly pronounced.”<sup>91</sup> In the post-World War II period, this parasitic character of American capitalism is inextricably linked to the fact that the tendencies of the usurer state are becoming more and more pronounced in the U.S. economy. The intensification of

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<sup>91</sup> V. I. Lenin, *Imperialism as the Highest Stage of Capitalism*, Works, vol. 22, p. 287.

parasitism is clearly manifested in the growth of unproductive expenditures of the state caused by the arms race and the all-round militarisation of the national economy. The intensification of parasitism finds its expression in the increasing lag of agriculture behind industry; in the gigantic growth of unearned incomes and the extravagance of the bourgeoisie, unprecedented even for American proportions; In the bribery by the bourgeoisie of the decayed trade union bureaucracy, which is the faithful pillar of the American monopolies in the field of domestic and foreign policy.

### **The Intensification of the Impoverishment of the Working Class in the Capitalist Countries.**

The deepening of the general crisis of capitalism after the Second World War led to the further impoverishment of the proletariat. By maximizing profits in the face of the shrinking world capitalist market, the monopolies enormously increase the exploitation of the working people. Monopoly capital shifts onto the shoulders of the working people all the destructive consequences of the war and the militarisation of the economy.

The post-World War II period is characterised by an even greater widening of the chasm between the social poles of capitalist society. The intensification of the exploitation of the proletariat is expressed primarily in the fall in the real wages of the workers. The biggest factor in the decline in the real wages of the working class is the persistence of mass unemployment. At the same time, the working conditions of employed workers are systematically deteriorating as a result of the widespread use of various sweatshop wage systems, which ensure an unrestrained increase in the intensity of work.

The monopolies, with the support of right-wing socialists and reactionary trade union officials, seek to reduce the real wages of workers by “freezing” nominal wages, that is, by prohibiting their increase, in conditions of inflation and an increase in the tax burden. Inflation causes an increase in the cost of living and a rapid increase in the prices of consumer goods, widening the gap between nominal and real wages. The external expansion and militarisation of the economies of the capitalist countries are being carried out at the expense of an enormous increase in the tax burden imposed on the working people. One of the factors contributing to the decline in the standard of living of the working class is the rapid rise in rents and the deterioration of housing conditions. The fall in real wages leads to a systematic deterioration in the nutrition of the working population.

The position of the working intelligentsia in the capitalist countries is deteriorating sharply: mass chronic unemployment in its ranks is growing, and its incomes are falling as a result of rising subsistence prices, taxes, and inflation.

In France and Italy, workers' real wages in 1952 were less than half of pre-war wages; in England, they were 20% lower than pre-war wages.

The total number of fully and partially unemployed people in capitalist countries reached 45 million in 1950, which together with their families amounted to more than 150 million people. In 1952, despite the growth of war production, there were at least 3 million fully unemployed and 10 million partially unemployed in the United States, over half a million fully unemployed in England, and almost 3 million fully and partially unemployed in West Germany. In Italy, there were over 2 million fully unemployed and even more partially unemployed. There were about 10 million fully and partially unemployed people in Japan. Since then, unemployment in the capitalist countries has increased even more. In the United States, at the beginning of 1954, the number of fully

unemployed reached 3.7 million, and partially unemployed-13.4 million people.

In the United States, direct personal taxes increased more than 12-fold in fiscal year 1952/53 compared to fiscal year 1937/38, even when currency depreciation was taken into account. In Western European countries, where the tax burden was very heavy even before the Second World War, taxes increased over the same period: in England - by 2 times, in France-by 2.6 times, in Italy - by one and a half times.

In all countries of the capitalist camp, the consumption of food products by the majority of the population has sharply decreased. The level of national consumption has fallen even more in colonial and dependent countries, where systematic malnutrition and hunger are the lot of tens and hundreds of millions of people.

The size of the working family's rent in the United States in 1952 was more than 190% compared to the level of 1939.

The Census Bureau estimates that in 1949, 72.2% of all American households in the United States had incomes below the extremely meagre official minimum subsistence level, while 34.3% of all households had incomes below half that minimum, 18.5% less than a quarter, and 9.4% less than an eighth of that minimum. More than 5.5 million Americans survive on odd jobs.

The deterioration of the material conditions of broad strata of the population of the capitalist countries leads to an increase in indignation among the masses of the people and to an intensification of the struggle against monopoly capital. This finds expression in the upsurge of the strike movement in the capitalist countries, in the strengthening of the progressive trade unions united by the World Federation of Trade Unions, which was established in 1945, in the growth of the Communist parties and the expansion of their influence on the masses, and in the development of the political struggle of the working class. The Communist Parties and the progressive trade unions, while resolutely fighting the right-wing socialists and reactionary trade union leaders, are educating the working class in the spirit of proletarian

solidarity, in the spirit of the struggle for liberation from imperialist oppression.

## **The Degradation of Agriculture in the Capitalist Countries and the Ruin of the Peasantry.**

The deepening of the general crisis of capitalism after World War II is characterised by the strengthening of the domination of monopolies and finance capital in agriculture, the further degradation of agricultural production, and the growth of differentiation and ruin of the main mass of the peasantry.

Finance capital is taking greater and deeper hold on agriculture. Mortgage banks, granting loans secured by land, become the actual owners of the land plots of the ruined peasants, their implements and other property. Short-term credit banks and insurance companies entangle farmers in a web of debt.

Monopolies profit from all stages of the passage of agricultural commodities from producer to consumer. By setting low prices for the products bought from the small peasants and inflating retail prices, the monopolies appropriate a large part of the peasantry's income. Huge profits are made at the expense of the bulk of the peasants by the monopolies engaged in the processing of agricultural products (in the flour, meat, canning, and sugar industries). The measures taken by the state authorities - tax policy, purchasing operations, and various types of so-called "aid" to agriculture - lead to the further enrichment of the monopolies and the impoverishment of the main mass of the peasantry. The exploitation of the peasants by the monopolies is combined with numerous survivals of feudal exploitation, and above all with sharecropping, in which the

tenant is compelled to give the landowners a considerable part of the harvest in exchange for the lease of land and implements.

In the United States, the share of large and large farms with an area of more than 500 acres, which accounted for less than 6% of all farms in 1950, in the total land area increased from 44.9% in 1940 to 53.5% in 1950, while the share of latifundia with an area of more than 1 thousand acres increased from 34.3% to 42.6%. According to the 1950 census, 44% of all farms produced only 5% of all marketable products, that is, they conducted a primitive, unproductive, consumer economy, while 103,211 large farms, which accounted for only 2% of all farms, produced 26% of all marketable products. In France in 1946, small farms with an area of up to 10 hectares, which accounted for 58.2% of all farms, owned only 16.4% of all agricultural land, while 4.3% of large farms owned 30% of the land. In West Germany, small farms with an area of up to 5 hectares, which accounted for 55.8% of all farms in 1949, had only 11% of the total land, while 0.7% of large farms owned 27.7% of the land. In Italy, there are 2.5 million landless peasants and 1.7 million smallholders. Over the decade from 1940 to 1950, more than 700,000 farms went bankrupt in the United States.

Total land rents in the United States increased from \$ 760 million in 1937 to \$ 2.1 billion in 1952. In Italy, several hundred landlords receive annually 450 billion lire of land rent, while the wages of 2.5 million agricultural labourers amount to about 250 billion lire. The total debt owed by American farmers to banks and other credit institutions almost doubled between 1946 and 1952, reaching \$ 14.6 billion by January 1, 1953. The property tax on the farm population in 1952 was 2.3 times higher than in 1942.

After the Second World War, the unprecedented increase in the impoverishment of the working class and peasantry in capitalist countries and the enormous costs incurred by these countries for armaments led to a drop in effective demand and a narrowing of agricultural markets. In this regard, a new

agrarian crisis is growing in the capitalist countries. Stocks and 'surpluses' of agricultural goods that cannot be sold are rapidly increasing, crops are being cut, the income of the main mass of the peasantry from the sale of their products is falling sharply, small producers are being massively ruined, a huge amount of food is being destroyed, while food consumption is being reduced and the working masses are directly malnourished.

In 1953, US wheat rolling stocks exceeded the maximum level of reserves during the crisis of 1929-1933 and were 4.4 times higher than the average annual reserves for 1946-1948. In order to maintain inflated food prices, government agencies in the United States are buying up and destroying huge quantities of potatoes, vegetables, fruits, livestock, and poultry.

In 1953, the net income of U.S. farmers decreased by \$ 4.5 billion, or 35%, compared to the average annual income for 1946-1948. At the same time, production costs and other expenses of farmers have increased significantly due to rising prices and the depreciation of the dollar.

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The further deepening of the general crisis of capitalism after the Second World War is characterised by the steady sharpening of all the contradictions of capitalist society. The contradiction between the productive forces of society and capitalist relations of production, which has reached its extreme limits, clearly demonstrates the historical doom of the obsolete bourgeois system.

The second stage of the general crisis of capitalism brought about an aggravation of the crisis of bourgeois democracy. The bourgeoisie threw overboard the banner of bourgeois-democratic freedoms, the banner of national independence and national sovereignty. Hiding behind the slogan of cosmopolitanism, the bourgeoisie trampled on the principle of the equality of individuals and nations. This principle has now been replaced in the capitalist countries by

the principle of the full rights of the exploiting minority and the lack of rights of the exploited majority of the members of society. Thus, the anti-people and anti-national character of bourgeois rule is now more and more openly manifested. The bourgeoisie seeks a way out of the general crisis of capitalism by means of war and the fascisation of political life.

The masses of the people of the capitalist countries, marching under the banner of proletarian internationalism, are seeking a way out by means of an active and determined struggle against the entire system of imperialist slavery and for national and social liberation.

“Proletarian, socialist internationalism is the basis of the solidarity of the working people and of cooperation among the peoples in the defence of their independence against the intrigues of imperialism, in the defence of peace. It teaches the workers to unite in every country to fight against the power of capital, to ensure the transition to a socialist economy. It teaches the working class and the peoples to develop the bonds of international solidarity in order to better wage the struggle for peace, to isolate and neutralize the provocateurs of a new war.

As a result of the First World War, Russia fell away from the capitalist system, as a result of the Second World War, a number of countries in Europe and Asia, and the Third World War, if the imperialists had succeeded in igniting it, would inevitably have led to the collapse of the entire world capitalist system. In this war, the imperialist aggressors would not only be confronted with the invincible power of the states of the socialist camp, but they would be confronted with the fact that all the sharpest contradictions inherent in modern capitalism would explode: between labour and capital, between the imperialist powers, between the metropolises and the colonies. By virtue of the immutable laws of historical development, the laws of the class struggle, the rear of the imperialist front, in the event



of a new world war, would inevitably become an arena of fierce battles between the working class and all working people and their oppressors, an arena of irreconcilable struggle between the enslaved peoples of the colonies and dependent countries for their freedom and independence. This would lead to the collapse of the imperialist system as a whole.

The progressive, democratic forces of the peoples, led by the working class and its vanguard, the communist parties, are rallying in active opposition to imperialist reaction, the fascist danger, and the plans for new wars. The camp of peace, democracy and socialism led by the Soviet Union now unites 900 million people in countries that have fallen away from the capitalist system, with many hundreds of millions of people in countries still subject to capital. This camp is a powerful force that has a decisive impact on the entire course of modern history.

## **BRIEF CONCLUSIONS**

*1. In the period of the Second World War, especially after the fall away from the capitalist system of the people's democratic states in Europe and Asia, the second stage of the general crisis of capitalism unfolded. As a result of the formation of two opposing camps in the international arena, there was the disintegration of a single all-encompassing world market and the formation of two parallel markets: the market of the countries of the socialist camp and the market of the countries of the capitalist camp. The sphere of application of the forces of the main authorities has been sharply reduced capitalist countries - the USA, England and France - to world resources. In the capitalist countries there are growing difficulties in sales and chronic underutilisation of enterprises.*

2. One of the most important results of the Second World War was a sharp aggravation of the crisis of the colonial system of imperialism. The new upsurge of the national liberation struggle in the colonial and dependent countries led to the beginning of the disintegration of the colonial system and to the secession of China and some other countries from the world system of imperialism.

3. The further intensification of the uneven development of the capitalist countries is causing an inevitable aggravation of the internal contradictions in the camp of imperialism. U.S. imperialism, having embarked on the path of unrestrained expansion, seeks to subjugate the economies of other capitalist countries. The militarisation of the economy leads to a widening of the gap between the productive capacity of the industry of the capitalist countries and the possibilities of selling its products, and thereby prepares for new economic crises and catastrophes.

4. The second stage of the general crisis of capitalism is characterised by a further sharp deterioration in the material conditions of the broad masses of the working people. This finds expression in the fall in the real wages of the working class, in the increase in the standing armies of the unemployed, in the widespread use of sweatshops, in inflation and the rise in the cost of living, in the increase in the tax burden, in the impoverishment and ruin of the main masses of the peasantry of the capitalist countries, and in the intensification of colonial exploitation. The strengthening of the camp of peace, democracy and socialism, the weakening of the imperialist camp of reaction and war, the upsurge of the liberation struggle of the working class, the peasantry and the colonial peoples show that the present epoch is the epoch of the collapse of capitalism, the epoch of the victory of communism.

## ECONOMIC DOCTRINES OF THE EPOCH OF CAPITALISM

With the development of capitalism and the growth of its contradictions, various trends in economic thought were formed and developed, expressing the interests of certain classes.

### **Bourgeois Classical Political Economy.**

In the struggle against feudalism and for the establishment of the capitalist order, the bourgeoisie created its own political economy, which debunked the economic views of the ideologists of feudalism and for a certain time played a progressive role.

The capitalist mode of production was established first of all in England. It was here that bourgeois classical political economy was born. *William Petty* (1623-1687), whose activity dates back to the period of the decay of mercantilism, in his efforts to discover the intrinsic connection of the economic phenomena of bourgeois society, made the important discovery that commodities are exchanged according to the quantity of labour required for their production.

The *physiocrats* played an important role in the creation of bourgeois political economy. At the head of this trend was *François Quesnay* (1694-1774). The Physiocrats appeared in France in the second half of the eighteenth century, during the period of ideological preparation for the bourgeois revolution. Like the French Enlightenment philosophers of the time, the Physiocrats believed that there were natural, nature-given laws of human society. France was at that time an agricultural country. In contrast to the mercantilists, who

saw wealth only in money, the Physiocrats declared that the only source of wealth was nature, and therefore agriculture, which provided man with the fruits of nature. Hence the name of the school, “Physiocrats,” made up of two Greek words meaning nature and power.

Central to the theory of the Physiocrats was the doctrine of the “net product.” This is how the Physiocrats called the total surplus of the product over and above the cost of production, that part of *the product* in which surplus value is embodied under capitalism. The Physiocrats understood wealth as a definite mass of products in their material, natural form, as a definite mass of use-values. They asserted that the “net product” arose exclusively in agriculture and cattle breeding, that is, in those branches in which the natural processes of plant and animal growth took place, while in all other branches only the form of the products supplied by agriculture was changed.

The most important work of the Physiocratic school was Quesnay’s *Economic Table*. Quesnay’s merit lay in the fact that he made a remarkable attempt to present the process of capitalist reproduction as a whole, although he was unable to give a scientific theory of reproduction.

On the premise that the “net product” is created only in agriculture, the Physiocrats demanded that all taxes should be imposed on the landowners and that the industrialists should be exempt from tax burdens. In this demand, the class nature of the physiocrats as ideologists of the bourgeoisie was clearly manifested. The Physiocrats were advocates of the unlimited domination of private property. Asserting that only free competition corresponds to the natural laws of economy and to human nature, they opposed the policy of protectionism to the policy of *free trade*, and resolutely fought against guild restrictions and against state interference in the economic life of the country.

Bourgeois classical political economy reached its highest development in the works of A. Smith and D. Ricardo.

*Adam Smith* (1723-1790) made a significant step forward in the scientific analysis of the capitalist mode of production in comparison with the Physiocrats. His major work is *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). The wealth of a country consists, according to Smith, in the whole mass of the goods produced in it. He rejected the one-sided and therefore erroneous conception of the Physiocrats that the “net product” is created only by agricultural labour, and for the first time proclaimed *all labour*, in whatever branch of production, to be the source of value. Smith was an economist of the manufacturing period of the development of capitalism, so he saw the basis for increasing the productivity of labour in the division of labour.

Smith was characterised by the interweaving of two different approaches to economic phenomena. On the one hand, Smith investigates the inner connection of phenomena, trying to penetrate through his analysis into the hidden structure or, as Marx put it, into the physiology of the bourgeois economic system. On the other hand, Smith gives a description of phenomena as they appear on the surface of capitalist society, and consequently as they appear to the practical capitalist. The first of these ways of understanding is scientific, the second is unscientific.

In investigating the intrinsic connection of the phenomena of capitalism, Smith determined the value of a commodity by the quantity of labour expended in its production; At the same time, he regarded the wages of the wage-worker as a part of the product of his labour, determined by the value of the means of subsistence, and profit and rent as a deduction from the product created by the labourer’s labour. However, Smith did not consistently pursue this view. Smith constantly confused the determination of the value of commodities by the labour contained in them with the determination of the value of commodities by the “value of labour.” He asserted that the determination of value by labour referred only to the

“primitive state of society,” by which he meant the simple commodity economy of small producers. Under capitalism, however, the value of a commodity *is made up* of incomes: wages, profit, and rent. Such an assertion reflected the deceptive appearance of the phenomena of the capitalist economy. Smith believed that the value of the total social product consisted only of revenues—wages, profit, and rent—that is, he mistakenly omitted the value of the constant capital consumed in the production of the commodity. This “Smith’s dogma” precluded any possibility of understanding the process of social reproduction.

Smith was the first to outline the class structure of capitalist society, pointing out that it breaks down into three classes: (1) workers, (2) capitalists, and (3) landowners. But Smith was limited to the bourgeois worldview and reflected in his views the underdevelopment of the class struggle of that era; He asserted that in capitalist society there is a community of interests, since everyone strives for his own benefit, and out of the clash of individual aspirations arises the common good. Resolutely opposed to the theoretical views and policies of the mercantilists, Smith ardently defended *free competition*.

In the writings of *David Ricardo* (1772-1823) bourgeois classical political economy was completed. Ricardo lived during the period of the industrial revolution in England. His major work, *The Principles of Political Economy and Taxation*, was published in 1817.

Ricardo developed a labour theory of value with the greatest consistency possible within the framework of a bourgeois outlook. Rejecting Smith’s thesis that value is determined by labour only in the “primitive state of society,” he showed that the value created by the labour of the labourer *is the source* from which wages, profit, and rent arise.

Starting from the premise that value is determined by labour, Ricardo showed the antagonism of the class interests

of bourgeois society as it manifests itself in the sphere of distribution. Ricardo considered the existence of classes to be an eternal phenomenon in the life of society. In Marx's words, Ricardo "consciously takes as his starting point the antagonism of class interests, wages and profit, profit and ground rent, naively regarding this opposition as a natural law of social life."<sup>93</sup> Ricardo formulated an important economic law: the higher the wages of the worker, the lower the profit of the capitalist, and vice versa. Ricardo also showed the contrast between profit and rent; But he was mistaken in admitting the existence of only differential rent, which he associated with an imaginary "law of diminishing fertility of the soil."

Ricardo played an important role in the development of political economy. His doctrine that value is determined only by labour was of outstanding historical significance. Observing the growth of capitalist contradictions, some of his followers began to conclude that if value is created only by labour, then it is necessary and just that the worker, the creator of all wealth, should also be the owner of all wealth, of all products of labour. Such a demand was made in England in the first half of the nineteenth century by the early socialists, the followers of Ricardo.

At the same time, Ricardo's teaching bore the characteristics of bourgeois narrowness. The capitalist system, with its antithesis of class interests, seemed to Ricardo, as to Smith, a natural and eternal system. Ricardo did not even raise the question of the historical origin of such economic categories as commodity, money, capital, profit, etc. He understood capital unhistorically, identifying it with the means of production.

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<sup>93</sup> Karl Marx, *Capital*, Vol. I, 1953, p. 12.

## **The Emergence of Vulgar Political Economy.**

With the development of capitalism and the intensification of the class struggle, classical bourgeois political economy gave way to vulgar political economy. Marx called it vulgar because its representatives replaced the scientific knowledge of economic phenomena with a description of their external appearance, with the aim of embellishing capitalism and glossing over its contradictions. The vulgar economists rejected everything that was scientific and took up everything that was unscientific in the views of the previous economists (especially Adam Smith), everything that was conditioned by the class narrow-mindedness of their outlook.

“From now on, it was no longer a question of whether a particular theorem was right or wrong, but of whether it was useful for capital or harmful, convenient or inconvenient, consistent with police considerations or not. Disinterested research gives way to the battles of hired scribblers, impartial scientific research is replaced by biased, obsequious apologetics”.<sup>94</sup>

In the sphere of the theory of value, vulgar economy, in opposition to the determination of value by labour-time, has advanced a number of propositions which have already been refuted by the bourgeois classical school. These include: the theory of supply and demand, which ignores the value underlying prices and replaces the explanation of the very basis of commodity prices with a description of the fluctuations in these prices; the cost-of-production theory, which explains the prices of some commodities by means of the prices of other commodities, i.e., it actually revolves in a vicious circle; A theory of utility which, in attempting to explain the value of commodities by their use-value, ignores the fact that the use-values of heterogeneous commodities

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<sup>94</sup> K. Marx, *Capital*, vol. I, 1953, p. 13.



are qualitatively different and therefore quantitatively incomparable.

The English vulgar economist *T. R. Malthus* (1766-1834) invented the idea that the poverty of the broad masses of the working people, which is characteristic of capitalism, is due to the fact that people multiply faster than the amount of means of subsistence provided by nature can increase. According to Malthus, the necessary correspondence between the size of the population and the amount of means of subsistence provided by nature is established by famine, poverty, epidemics, and wars. Malthus's misanthropic "theory" was created with the aim of justifying a social order in which the parasitism and luxury of the exploiting classes coexist with the back-breaking work and growing need of the broad masses of the working people.

The French vulgar economist *J. B. Say* (1767-1832) declared the source of value to be "three factors of production"—labour, capital, and land—and concluded that the owners of each of the three factors of production receive the incomes "due" to them: the worker, wages, the capitalist, profit (or interest), and the landlord, rent. Asserting that under capitalism there was no contradiction between production and consumption, Say denied the possibility of general crises of overproduction. Say's theory was a gross distortion of reality for the benefit of the exploiting classes. Speculations about the harmony of class interests under capitalism were assiduously disseminated by the French economist *F. Bastiat* (1801-1850) and the American *C. Carey* (1793-1879). Under the pretext of defending bourgeois "freedom of labour," vulgar political economy waged a fierce struggle against trade unions, collective agreements, and workers' strikes. From the second quarter of the nineteenth century, vulgar political economy gained unchallenged dominance in bourgeois science.

## Petty-Bourgeois Political Economy.

At the beginning of the XIX century, a petty-bourgeois trend in political economy emerged, reflecting the contradictory position of the petty bourgeoisie as an intermediate class of capitalist society. Petty-bourgeois political economy has its origins in the Swiss economist S. Sismondi (1773-1842). In contrast to Smith and Ricardo, who considered the capitalist system to be the natural state of society, Sismondi criticised capitalism and condemned it from the standpoint of the petty bourgeoisie. Sismondi idealised the small-scale commodity production of peasants and artisans and came up with utopian projects for the perpetuation of small property, failing to see the inevitability of the growth of capitalist relations inherent in small-scale commodity production. From the fact that the incomes of workers and small producers were declining, Sismondi erroneously concluded that the market would inevitably shrink as capitalism developed. He wrongly asserted that the accumulation of capital is possible only if there are small producers and a foreign market.

The views of petty-bourgeois political economy were developed in France by P. J. Proudhon (1809-1865). He advocated the reactionary idea of curing all the social evils of capitalism by establishing a special bank that would carry out the non-monetary exchange of the products of small producers and provide free credit to the workers. Proudhon sowed reformist illusions among the masses of the workers, diverting them from the class struggle.

In Russia at the end of the nineteenth century, the reactionary-utopian ideas of petty-bourgeois political economy were preached by the liberal Narodniks.

## Utopian Socialists.

With the advent and development of large-scale machine industry at the end of the eighteenth century and the beginning of the nineteenth century, the contradictions of capitalism and the calamities which it brings to the working masses became more and more apparent. But the working class was not yet aware of its historical role as the gravedigger of capitalism. During this period, great utopian socialists came out: *Henri Saint-Simon* (1760-1825) and *Charles Fourier* (1772-1837) in France, *Robert Owen* (1771-1858) in England, who played an important role in the history of the development of socialist ideas.

In the explanation of economic phenomena, the utopian socialists remained on the same ground of the Enlightenment philosophy of the eighteenth century as the representatives of bourgeois classical political economy. But while the latter regarded the capitalist system as corresponding to human nature, the utopian socialists regarded this system as contrary to human nature.

The historical significance of the utopian socialists lay in the fact that they strongly criticised bourgeois society, mercilessly lashing out at its plagues: the poverty and deprivation of the masses of the people, who were doomed to hard, exhausting labour, the corruption and corruption of the rich elite of society, the enormous waste of productive forces as a result of competition, crises, etc. on the basis of private ownership of the means of production and the exploitation of some classes of society by others, Utopian socialists opposed the coming socialist system based on public ownership of the means of production and free from the exploitation of man by man. But the utopian socialists were far from understanding the real ways of realizing socialism. Ignorant of the laws of social development, the laws of class struggle, they believed that the propertied

classes themselves would realize socialism when they “could be convinced of the reasonableness, justice, and expediency of this new system. Utopian socialists were completely alien to understanding the historical role of the proletariat. Utopian socialism ‘could neither explain the essence of wage slavery under capitalism, nor discover the laws of its development, nor find the social force that can become the creator of a new society.’”<sup>95</sup>

## **Revolutionary Democrats in Russia.**

In the middle of the XIX century, in Russia, which was experiencing the crisis of serfdom, a brilliant galaxy of thinkers came to the fore who made a great contribution to the development of economic science.

*A. I. Herzen* (1812-1870) castigated tsarism and serfdom in Russia, calling on the people to wage a revolutionary struggle against them. He also sharply criticised the system of capitalist exploitation that had taken hold in the West. Herzen laid the foundation for utopian “peasant socialism.” He saw “socialism” in the emancipation of the peasants with the land, in communal land ownership, and in the peasant idea of the “right to the land.” There was nothing really socialist in Herzen’s views, but they expressed the revolutionary aspirations of the Russian peasantry, which was fighting for the overthrow of the landlord power and for the abolition of landlordism.

The great Russian revolutionary and scientist *N. G. Chernyshevsky* (1828-1889) made great contributions to the development of economics. Chernyshevsky led the resolute struggle of the revolutionary democrats against serfdom and the tsarist autocracy in Russia. He gave a brilliant critique

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<sup>95</sup> V. I. Lenin, *Three Sources and Three Components of Marxism*, Works, vol. 19, p. 7.

not only of serfdom, but also of the capitalist system, which had by that time been consolidated in Western Europe and North America. Chernyshevsky profoundly exposed the class character and limitations of bourgeois classical political economy and subjected to devastating criticism the vulgar economists—John Stuart Mill, Say, Malthus, and others. In Marx's estimation, N. G. Chernyshevsky masterfully elucidated the bankruptcy of bourgeois political economy.

To bourgeois political economy, which serves the selfish interests of the capitalists, Chernyshevsky contrasted the "political economy of the working people," in which labour and the interests of the working people must occupy a central place. As a representative of utopian "peasant socialism," Chernyshevsky, in view of the underdevelopment of capitalist relations in contemporary Russia, did not see that the development of capitalism and the proletariat created the material conditions and social force for the realisation of socialism. But Chernyshevsky, in his understanding of the nature of capitalist society and its class structure and the nature of its economic development, went far ahead of the Western European utopian socialists and took a major step towards scientific socialism. In contrast to the utopian socialists of the West, Chernyshevsky attached decisive importance to the revolutionary activity of the working masses and their struggle for their emancipation, and called for a people's revolution against the exploiters. Chernyshevsky was a consistent, militant revolutionary democrat. Lenin wrote that his writings reeked of the spirit of the class struggle.

Chernyshevsky's economic doctrine represents the pinnacle of the development of all political economy before Marx. In his philosophical views, Chernyshevsky was a militant materialist. Like Herzen, he came very close to dialectical materialism.

The revolutionary democrats, Herzen, Chernyshevsky and their associates, were the forerunners of Russian Social-Democracy.

## **The Revolutionary Upheaval in Political Economy Accomplished by K. Marx and F. Engels.**

By the middle of the XIX century, the capitalist economic system had become dominant in the principal countries of Western Europe and in the United States of America. A proletariat was formed, which began to rise up in the struggle against the bourgeoisie. The conditions arose for the creation of an advanced proletarian world outlook - *scientific socialism*.

*Karl Marx* (1818-1883) and *Friedrich Engels* (1820-1895) transformed socialism from a utopia into a science. The doctrine elaborated by Marx and Engels expresses the fundamental interests of the working class and is the banner of the struggle of the proletarian masses for the revolutionary overthrow of capitalism and for the victory of socialism. Marx's doctrine "arose as a direct and immediate *continuation* of the teachings of the greatest representatives of philosophy, political economy, and socialism."<sup>96</sup> Marx's genius, as Lenin pointed out, lies precisely in the fact that he gave answers to the questions which the advanced thought of mankind had already posed. His teaching is the rightful successor of the best that has been created by human thought in the field of the science of human society. At the same time, the emergence of Marxism was a *radical revolutionary upheaval* in philosophy, in

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<sup>96</sup> V. I. Lenin, *Three Sources and Three Components of Marxism*, Works, vol. 19, p. 3.

political economy, and in all the social sciences. Marx and Engels armed the working class with an integral and harmonious world view, *dialectical materialism*, which is the theoretical foundation of scientific communism. By extending dialectical materialism to the realm of social phenomena, they created *historical materialism*, which represents the greatest achievement of scientific thought. They contrasted the non-historical approach to human society with a historical approach based on a thorough study of the actual course of development. They replaced the previously dominant idea of the immutability, of the immobility of society, by a harmonious doctrine that revealed the objective laws of social development—the laws of the replacement of one form of society by another.

Marx and Engels were the founders of a genuinely scientific political economy. By applying the method of dialectical materialism to the study of economic relations, Marx brought about a profound revolutionary revolution in political economy. Approaching political economy as the ideologist of the working class, Marx fully revealed the contradictions of capitalism and created *proletarian political economy*. Marx developed his economic doctrine in an irreconcilable struggle against bourgeois apologetics for capitalism and petty-bourgeois criticism of it. Using and developing a number of theses from the classics of bourgeois political economy, such as Smith and Ricardo, Marx resolutely overcame the antiscientific views and contradictions contained in their teachings. In his economic doctrine, Marx summed up and generalised a vast amount of material on the history of human society, and especially on the history of the emergence and development of capitalism. Marx discovered the historically transitory character of the capitalist mode of production and investigated the laws of the origin, development, and death of capitalism. On the basis of a profound economic analysis of the capitalist system, Marx substantiated the historical mission of the proletariat as the

gravedigger of capitalism and the creator of a new, socialist society.

The foundations of the Marxist worldview were already proclaimed in the first programmatic document of scientific communism, the Communist Manifesto, written by Marx and Engels in 1848. In the preface to this work, a classic exposition of the foundations of historical materialism is given. Marx's main work, which he rightly called his life's work, was Capital. The first volume of Capital (The Process of Production of Capital) was published by Marx in 1859; the second volume (The Process of the Circulation of Capital) was published by Engels after Marx's death, in 1867, and the third volume (The Process of Capitalist Production as a Whole) in 1885. The preparatory manuscripts he left were published after the death of Marx and Engels under the title *Theories of Surplus Value* (in three volumes).

A number of Engels' classic works are also devoted to the development of the theory of scientific communism. These include The Condition of the Working Class in England (1845), Anti-Dühring (1878), which deals with the most important questions in the fields of philosophy, natural science, and the social sciences, The Origin of the Family, Private Property, and the State (1884), and others.

In creating proletarian political economy, Marx first of all comprehensively substantiated and consistently developed the *labour theory* of value. In his study of the commodity and the contradiction between its use-value and value, Marx discovered that the labour contained in the commodity has a dual character. It is, on the one hand, concrete labour, which creates the use-value of the commodity, and, on the other hand, abstract labour, which creates its value. The discovery of the dual character of labour served Marx as the key to the scientific explanation of all the phenomena of the capitalist mode of production on the basis of the labour theory of value. By showing that value is not a thing, but the production relation of people covered by a material shell,



Marx revealed the secret of commodity fetishism. He analysed the form of value, investigated its historical development from the first rudiments of exchange to the complete domination of commodity production, which enabled him to discover the real nature of money.

Marx's labour theory of value served as the basis for Marx's doctrine of *surplus value*. Marx was the first to show that under capitalism the commodity is not labour, but labour-power. He investigated the value and use-value of this specific commodity and explained the nature of capitalist exploitation. Marx's theory of surplus value fully reveals the essence of the basic production relation of capitalism, the relation between capitalist and worker, and exposes the deepest foundations of class antagonism and class struggle between the proletariat and the bourgeoisie.

Marx not only revealed the origin and source of surplus value, but also explained how capitalist exploitation is disguised and obscured. He investigated the essence of wages as the price of labour-power, appearing in a transformed form of the price of labour.

Marx gave a profound scientific analysis of the various forms that surplus value takes. He showed how surplus-value appears in a transformed form, in the form of profit, and how it further assumes the form of *ground-rent* and interest. This gives the deceptive appearance that wages are the price of labour, that profit is generated by capital itself, rent by land, and interest by money.

In his doctrine of the price of production and average profit, Marx resolved the contradiction that under capitalism market prices deviate from value. At the same time, he revealed the objective basis of the solidarity of the capitalist class with regard to the exploitation of workers, since the average profit received by each capitalist is determined not by the degree of exploitation in an individual enterprise, but in the whole capitalist society.

Marx developed the theory of differential rent and was the first to provide a scientific basis for the theory of absolute rent. He explained the reactionary, parasitic role of large-scale landownership and the nature and forms of exploitation of the peasants by the landlords and the bourgeoisie.

Marx was the first to discover the laws of capitalist accumulation, establishing that the development of capitalism and the concentration and centralisation of capital inevitably lead to the deepening and sharpening of the contradictions inherent in this system, which are based on the contradiction between the social character of production and *the private capitalist form of appropriation*. Marx discovered *the universal law of capitalist accumulation*, which causes the growth of wealth and luxury at one pole of society and the growth of poverty, oppression, and the torment of labour at the other pole. He showed that with the development of capitalism there is a relative and absolute impoverishment of the proletariat, which leads to a deepening of the abyss between the proletariat and the bourgeoisie, to an intensification of the class struggle between them.

Marx's analysis of the *reproduction* of the total social capital is of the utmost importance. Having eliminated Smith's mistake of ignoring the constant capital consumed in the production of commodities, by dividing the social product according to value into three parts ( $c + v + t$ ) and according to its natural form into means of production and articles of consumption, Marx analysed the conditions of simple and expanded capitalist reproduction, the deep contradictions of capitalist realisation, which inevitably lead to crises of overproduction. He investigated the nature of *economic crises* and scientifically proved their inevitability under capitalism.

The economic doctrine of Marx and Engels is a profound and comprehensive justification of the inevitability of the

collapse of capitalism and the victory of the *proletarian revolution*, which establishes the *dictatorship of the working class* and opens a new era - the era of building a socialist society.

As early as the 70s and 80s, Marxism began to gain wider acceptance among the working class and the advanced intelligentsia of the capitalist countries. *Paul Lafargue* (1842-1911) in France, *Wilhelm Liebknecht* (1826-1900) and *August Bebel* (1840-1913) in Germany, *G. V. Plekhanov* (1856-1918) in Russia, *Dmitry Blagoev* (1855-1924) in Bulgaria and other outstanding figures of the workers' movement in various countries played an important role in spreading the ideas of Marxism in those years.

In Russia, the Marxist Workers' Party and its world outlook were formed in an irreconcilable struggle against the worst enemy of Marxism, Narodism. The Narodniks denied the leading role of the proletariat in the revolutionary movement: they asserted that the development of capitalism was impossible in Russia. The Narodniks were opposed by Plekhanov and the Emancipation of Labour group, which he had organised. Plekhanov was the first to give a Marxist critique of the erroneous views of the Narodniks, and at the same time he developed a brilliant defence of Marxist views. Plekhanov's activities in the 80's and 90's were of great importance for the ideological training of proletarian revolutionaries in Russia. In a number of works, Plekhanov successfully popularised certain aspects of Marx's economic doctrine, defending this doctrine against bourgeois criticism and reformist distortions. Plekhanov's literary works thoroughly undermined the position of the Narodniks. But the ideological defeat of the Narodniks was not complete. Already in the early period of his activity, Plekhanov had an erroneous understanding of a number of questions, which was the germ of his future Menshevik views: he did not take into account that in the course of the revolution the proletariat

must lead the peasantry, he regarded the liberal bourgeoisie as a force that could support the revolution, and so on.

### **Further Disintegration of Bourgeois Economics Modern Bourgeois Political Economy.**

Ever since Marxism entered the historical arena, the main and decisive task of bourgeois economists has been the “refutation” of Marxism.

In Germany in the mid-XIX century, the so-called *historical school* of political economy arose (*W. Roscher, B. Hildebrand*, and others). Representatives of this school openly denied the existence of economic laws of the development of society and substituted for scientific research the description of isolated historical facts. For these economists, the denial of economic laws served as a justification for all reactionary arbitrariness and grovelling before the military-bureaucratic state, which they exalted in every possible way.

Later representatives of the historical school, headed by *G. Schmoller*, formed the so-called historical-ethical or historical-legal direction. A characteristic feature of this trend, which is also called *Katheder-Socialism* (literally, “Socialism of the Pulpit”), is the substitution of reactionary-idealist chatter about moral aims, legal norms, etc., for economic research. The Katheder-Socialists glorified Bismarck’s reactionary policies and helped him in deceiving the working class.

In the last decades of the XIX century, as the ideas of Marxism spread, the bourgeoisie needed new ideological means to combat them. Then the so-called Austrian school appeared on the scene. The name of this school is due to the fact that its main representatives - *K. Menger, F. Wieser* and

E. Böhm-Bawerk - were professors at *Austrian universities*. In contrast to the historical trend, the representatives of the Austrian school formally recognised the need to investigate economic laws, but in order to embellish and defend the capitalist order, they transferred the search for these laws from the sphere of social relations to the sphere of subjectively psychological relations, that is, they followed the path of idealism.

In the field of value theory, the Austrian school put forward the so-called principle of “marginal utility.” According to this principle, the value of a commodity is determined not simply by its utility, as some vulgar economists have previously maintained, but by the marginal utility of the commodity, i.e., the least urgent of the individual’s needs which a given unit of the commodity satisfies. In fact, this theory explains nothing. It is quite obvious, for example, that the subjective valuation of a kilogram of bread is fundamentally different between the jaded bourgeois and the hungry unemployed, and yet both pay the same price for bread. Marx’s theory of surplus value was opposed by the economists of the Austrian school with the anti-scientific “theory of imputation,” which was only an updated form of the vulgar theory of the “three factors of production.”

The transition to imperialism and the consequent extreme sharpening of social contradictions and the class struggle caused a further degradation of bourgeois political economy. After the victory of the socialist revolution in the U.S.S.R., which practically refuted the assertions of the ideologists of the bourgeoisie about the eternity of the capitalist system, bourgeois economists began to see one of their main tasks in concealing from the working people of the capitalist countries the truth about the world-historical achievements of the socialist country by means of slander against the Soviet Union. Modern bourgeois political economy

is the ideological weapon of the financial oligarchy, the handmaiden of imperialist reaction and aggression.

In their explanation of such categories of capitalism as value, price, wages, profit, and rent, modern bourgeois economists usually take the position of the subjective-psychological trend, one of the varieties of which is the Austrian school discussed above, and rehash in various ways the old vulgar theory of the three factors of production. The English economist *Alfred Marshall* (1842-1924) tried to eclectically reconcile three different vulgar theories of value: supply and demand, marginal utility, and cost of production. The American economist *John Bates Clark* (1847-1938), preaching the false idea of the “harmony of interests” of the various classes of bourgeois society, advanced the theory of “marginal productivity,” which in fact is only a peculiar attempt to combine the old vulgar theory of the “productivity of capital” with the vulgar theory of the “marginal utility” of the Austrian school. Profit, according to Clark, is the reward of the employer’s work, and the working classes create only a small share of the wealth and receive it in full.

In contrast to the bourgeois economists of the epoch of pre-monopoly capitalism, who glorified freedom of competition as the basic condition for the development of society, modern bourgeois economists usually emphasize the need for the state to intervene in economic life in every possible way. They extol the imperialist state as a force that supposedly stands above classes and is capable of subordinating the economy of the capitalist countries to the planned principle. In reality, however, the interference of the bourgeois state in economic life has nothing in common with the planning of the national economy and further intensifies the anarchy of production. Apologists for monopolies hypocritically pass off as “organised capitalism” the subordination of the imperialist state to the financial oligarchy, its widespread use of the state apparatus for its

own selfish interests in order to increase the profits of the monopolies.

In the first decades of the XX century, the so-called *social trend*, or socio-organic school of political economy, became widespread in Germany (A. Ammon, R. Stolzmann, O. Spann, and others). In contrast to the Austrian school, with its subjective-psychological approach to economic phenomena, the representatives of the social trend interpreted the social relations of people, but they regarded these relations idealistically, as legal forms devoid of any material content. Social economists argued that social life was governed by legal and ethical norms. They disguised their zealous service to the capitalist monopolies with demagogic arguments about the “common good” and the need to subordinate the “part,” i.e., the toiling masses, to the “whole,” i.e., the imperialist state. They extolled the activities of the capitalists, declaring them to be the service of society. The reactionary fabrications of this school served as an ideological weapon for fascism in Germany and in other bourgeois countries.

German fascism made use of the most reactionary elements of German vulgar political economy, its extreme chauvinism, its admiration for the bourgeois state, and its advocacy of the conquest of foreign lands and “class peace” within Germany. As the worst enemies of socialism and of all progressive humanity, the German fascists resorted to anti-capitalist demagogy and hypocritically called themselves National Socialists. The Italian and German fascists preached the reactionary theory of the “corporate state,” according to which capitalism, classes, and class antagonisms had been eliminated in the fascist countries. The predatory practice of Hitlerite Germany’s seizure of foreign lands was justified by fascist economists with the help of the so-called “racial theory” and the “theory of living space.” According to these “theories,” the Germans are the “superior race” and all other nations are “inferior,” and the “master race” has the

right to seize the lands of other, “inferior” peoples by force and to extend its domination over the whole world. Historical experience has clearly shown the absurdity and impracticability of Hitler’s delusional plans for world domination.

In the period of the general crisis of capitalism, when the problem of the market has become unprecedentedly acute, economic crises have become more frequent and deeper, permanent mass unemployment has arisen, and various theories have appeared that inspire the illusion that it is possible to ensure “full employment” and eliminate the anarchy of production and crises while preserving the capitalist system. The theory of the English economist J. S. *Keynes* (1883-1946), which he expounded in his book *The General Theory of Employment, Interest, and Money* (1936), became widespread among bourgeois economists.

By glossing over the real causes of the constant mass unemployment and crises of capitalism, Keynes seeks to prove that the cause of these “defects” of bourgeois society lies not in the nature of capitalism, but in the psychology of people. According to Keynes, unemployment is the result of insufficient demand for personal and industrial consumption items. The lack of consumer demand is caused by the alleged inclination of people to save a part of their income, and the lack of demand for articles of industrial consumption is caused by the weakening of the interest of capitalists in employing their capital in various branches of the economy as a result of a general decrease in the “profitability of capital.” In order to increase employment, Keynes argued, it was necessary to expand capital investment, for which the state must, on the one hand, ensure an increase in the profitability of capital by lowering the real wages of workers, through inflation and a decrease in the rate of interest, and, on the other hand, make large capital investments at the expense of the budget. In order to expand consumer demand, Keynes recommends a further increase in parasitic



consumption and wastefulness of the ruling classes, an increase in military expenditures and other unproductive expenditures of the state.

Keynes's theory is utterly untenable and inherently profoundly reactionary. The lack of consumer demand is not caused by the mythical "propensity of people to save," but by the impoverishment of the working people. The measures proposed by Keynes ostensibly in the interest of ensuring full employment of the population - inflation, the growth of unproductive expenditures on the preparation and waging of wars - in fact lead to a further decline in the standard of living of the working people, to a contraction of the market and to an increase in unemployment. Keynes's vulgar theory is now widely used by bourgeois economists, as well as by right-wing socialists in the United States, Britain and other capitalist countries.

The modern vulgar political economy of the United States is characterised by a theory that advocates the growth of the state budget and the national debt as a means of overcoming the evils of capitalism. The American economist A. *Hansen*, believing that the possibilities for the further development of capitalism through the action of spontaneous economic forces alone have been considerably narrowed, argue for the need for the state to "regulate" the capitalist economy by forcing capital investment at the expense of increased state orders. He preaches organisation at the expense of the state budget, that is, at the expense of taxes and loans, public works, which are supposed to provide "universal employment" and make modern capitalism healthier. In reality, however, in the context of the imperialist powers' preparations for a new world war, such "public works" mean nothing more than the construction of strategic highways, railways, airfields, naval bases, etc., i.e., the further militarisation of the economy and the consequent sharpening of the contradictions of imperialism.

Some bourgeois economists in the United States and Britain advocate the “free play of economic forces,” by which they really mean the unlimited freedom of the monopolies to exploit the workers and rob the consumers. These economists hypocritically denounce the activities of the trade unions in defence of the workers as a violation of “economic freedom” and praise the reactionary anti-worker legislation of the imperialist states. Both the heralds of the “regulation” of the economy by the bourgeois state and the advocates of the “free play of economic forces” express the interests of the financial oligarchy, which seeks to secure for itself the maximum profit by further intensifying the exploitation of the working masses within the country and imperialist aggression in the international arena.

Bourgeois economists try to justify the predatory policy of the imperialist powers seizing foreign lands and enslaving and plundering other peoples by anti-scientific fabrications about the “unequal value” of different races and nations, about the civilizing mission of “superior” races and nations in relation to “inferior” ones, etc. Particularly zealous in this respect are the reactionary American economists, who, following in the footsteps of the German fascists, are spreading the misanthropic idea of the “superiority” of nations. speak English, over all other nations, and seek in every possible way to justify the delusional plans for the establishment of world domination by the United States.

The reverse side of the racial theory is bourgeois cosmopolitanism, which denies the principle of the equality of nations and demands the abolition of state borders. Bourgeois cosmopolitans declare national sovereignty and the independence of peoples to be an obsolete concept, and proclaim the existence of nation-states to be the main cause of all the social evils of modern bourgeois society—militarism, wars, unemployment, human poverty, etc. They oppose the principle of national sovereignty of peoples to the cosmopolitan idea of a “world state,” in which they

invariably assign the leading role to the United States. The same goal of abolishing the national sovereignty of the European peoples and their complete subordination to the domination of the U.S. imperialists is being pursued by the intensified propaganda of the idea of a “united Europe,” a “United States of Europe.” The preaching of cosmopolitanism sets itself the task of ideologically disarming the peoples and breaking their will to resist the encroachments of U.S. imperialism.

Many bourgeois economists in the United States are directly advocating a new world war. They declare war to be a natural and eternal phenomenon of social life and assert that peaceful coexistence between the countries of the capitalist camp and the countries of the socialist camp is impossible.

In order to justify imperialist aggression and to prepare for a new world war, the long-exposed theory of Malthus is widely propagated in bourgeois literature. Modern Malthusianism is characterised by a combination of the reactionary ideas of Malthus with racial theory. The Malthusians of the United States and other bourgeois countries assert that the globe is overpopulated as a result of the “excessive multiplication” of people, which is the root cause of hunger and all other evils of the working masses. They demand a drastic reduction in the population, especially of the colonial and dependent countries, whose peoples are waging a liberation struggle against imperialism. Modern Malthusians call for devastating wars with the use of atomic bombs and other means of mass extermination.

All these assertions of the apologists of capitalism are clear evidence of the complete bankruptcy of modern bourgeois political economy.

## **The Economic Theories of the Opportunists of the Second International and of the Modern Right Socialists.**

The innumerable attempts of bourgeois science to “destroy” Marxism have not in the least shaken its position. At that time, the struggle against Marxism began to be waged in a double-dealing way, taking the form of “improvements” and “interpretations” of Marx’s theory. “The dialectic of history is such that the theoretical victory of Marxism compels its enemies *to disguise themselves as Marxists.*”<sup>97</sup>

In the 90’s, revisionism appeared on the scene, the main representative of which was the German Social Democrat *E. Bernstein*. The *revisionists* took up arms against the teachings of Marx and Engels on the inevitability of the revolutionary collapse of capitalism and the establishment of the dictatorship of the proletariat. They subjected to a complete revision of all parts of Marx’s revolutionary economic doctrine. Marx’s labour theory of value was proposed by the revisionists to be combined with the theory of marginal utility, and in essence to be replaced by the latter. They interpreted the Marxist doctrine of surplus value in the sense of a “moral condemnation” of capitalist exploitation. Under the guise of “new data” on the development of capitalism, the revisionists declared “obsolete” Marx’s doctrine of the victory of large-scale production over small-scale production, of the impoverishment of the proletariat in capitalist society, of the irreconcilability and sharpening of class contradictions, and of the inevitability of economic crises of overproduction under capitalism. They called on the workers to renounce the revolutionary struggle for the abolition of the capitalist

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<sup>97</sup> V. I. Lenin, *Historical Destinies of the Teachings of Karl Marx*, Works, vol. 18, p. 546.

system and to confine themselves to the struggle for current economic interests. In Russia, the views of revisionism were taken up by the so-called “legal Marxists,” who were in fact bourgeois ideologists (*P. Struve*, *M. Tugan-Baranovsky*, and others), representatives of the opportunist group of Economists, and Mensheviks.

A more subtle form of distortion of Marxism was used by the opportunists of the Second International, *K. Kautsky* (1854-1938), *R. Hilferding* (1877-1941), and others. At the beginning of their career, they were Marxists, helping to spread Marxist teachings. Subsequently, they actually switched to the position of opponents of revolutionary Marxism, continuing for the time being to act under the guise of “orthodox,” that is, supposedly orthodox disciples of Marx and Engels. By paying lip service, and even then very inconsistently, to certain assertions of the revisionists, these opportunists emasculated the revolutionary essence of Marxism and tried to turn Marxism into a dead dogma. They rejected the doctrine of the dictatorship of the proletariat, which is the soul of Marxism, denied the absolute impoverishment of the working class, and asserted that crises under capitalism became less frequent and weaker. The revisionists sought to adapt proletarian political economy to the interests of the bourgeoisie.

In order to gloss over the deep contradictions of monopoly capitalism, Kautsky interpreted imperialism only as a special kind of policy, namely, as the striving of the highly developed industrial countries to subjugate the agrarian regions. This theory sowed illusions about the possibility of a different, non-predatory policy under the conditions of monopoly capitalism. During the First World War, Kautsky advanced the anti-Marxist theory of *ultra-imperialism* (super-imperialism), asserting that under imperialism it was possible, by means of collusion among the capitalists of different countries, to eliminate wars and create an organised world economy. This reactionary theory

is characterised by the separation of economics from politics and the disregard of the law of uneven development of the capitalist countries in the epoch of imperialism. The theory of “ultra-imperialism” embellished imperialism and disarmed the working class in favour of the bourgeoisie, creating illusions about the possibility of a peaceful and crisis-free development of capitalism. The vulgar “theory of the productive forces” preached by Kautsky, according to which socialism is supposedly the mechanical result of the development of the productive forces of society, without class struggle and revolution, served the same purpose. After the Great October Socialist Revolution in the U.S.S.R., Kautsky embarked on the path of open struggle against the world’s first dictatorship of the proletariat and called for intervention against the U.S.S.R.

R. Hilferding, in his work *Finance Capital* (1910), devoted to the study of the “newest phase of capitalism,” while giving a scientific analysis of certain aspects of the economy of imperialism, at the same time glossed over the decisive role of the monopolies in modern capitalism and the aggravation of all its contradictions, and ignored the most important features of imperialism—parasitism and the decay of capitalism, the division of the world and the struggle for its redivision. In the years of the temporary, partial stabilisation of capitalism, Hilferding asserted, following the bourgeois economists, that the era of “organised capitalism” had arrived, when, thanks to the activity of the monopolies, competition, anarchy of production, and crises disappeared, and a planned, conscious organisation began to prevail. From this the reactionary leaders of Social-Democracy drew the conclusion that trusts and cartels were peacefully “developing” into a planned socialist economy; As if the working class had only to help the trusts and bankers to establish their economy, and then present-day capitalism would gradually, without any struggle or revolution, “grow into” socialism.

Thus, the embellishment of imperialism by Kautsky, Hilferding and other reformist theoreticians of Social-Democracy is inseparably linked with their advocacy of the “peaceful growth of capitalism into socialism,” which is aimed at diverting the working class from the tasks of the revolutionary struggle for socialism and at subordinating the working-class movement to the interests of the imperialist bourgeoisie. This goal was served, in particular, by the apologetic theory of “economic democracy” propagated by some right-wing socialist leaders in the period between the two world wars. According to this theory, the workers, acting as representatives of the trade unions in the factory administrations and other bodies, allegedly take an equal part in the management of the economy and gradually become the masters of production. By their policy of betraying the interests of the working class, the Social-Democrats of the Second International cleared the way for fascism in Germany and in certain other countries.

A variant of the reformist theory of the peaceful growth of capitalism into socialism is the theory of “cooperative socialism,” which is built on the illusion that, if the domination of capital is maintained, the spread of cooperative forms will lead to socialism.

In Russia, anti-Marxist, Kautskyite views on questions of the theory of imperialism were disseminated by the enemies of socialism—the Mensheviks, Trotskyites, Bukharinites and others. Preaching apologetic theories of “pure imperialism,” “organised capitalism,” etc., they sought to gloss over the sharpening contradictions of monopoly capitalism. By denying the law of uneven development of capitalism in the epoch of imperialism, they tried to poison the consciousness of the working class with the poison of disbelief in the possibility of the victory of socialism in one country.

In the period after World War II, the defenders of capitalism were the right-wing reformist leaders of the British Labour Party and the right-wing socialist leaders in

France, Italy, West Germany, Austria, and other countries (*L. Blum, K. Renner, and others*). Acting as agents of the imperialist bourgeoisie in the workers' movement, the leaders of the right-wing socialists defend the monopolies, preach class peace between the workers and the bourgeoisie, and actively support the reactionary domestic and aggressive foreign policy of imperialism. In an effort to reconcile the working people with imperialism and to inspire the working class with faith in the possibility of improving its miserable situation while preserving the capitalist system, right-wing socialist theoreticians have invented the theory of "democratic socialism," which is a variety of the theory of the peaceful growth of capitalism into socialism.

The theory of "democratic socialism" asserts that in Britain, the United States, France and other capitalist countries there is no longer exploitation and the antagonism between the class interests of the proletariat and the bourgeoisie, and that the imperialist state is declared to be a supra-class organisation, and that every enterprise which is the property of this state is a "socialist" enterprise. Labour leaders declared their post-World War II nationalisation of the Bank of England, railways and certain industries to be the triumph of "democratic socialism". In reality, however, the Labour nationalisation was a bourgeois measure which did not change the economic nature of the nationalised enterprises as capitalist enterprises. The real masters in Britain continued to be the imperialist bourgeoisie and the big landowners, the landlords. The owners of the nationalised enterprises, which were previously unprofitable, have received generous compensation and a high guaranteed income, while the workers employed in the nationalised industries are forced to work even harder at low wages. The theory of "democratic socialism" serves as a cover for the growing oppression of the working masses by state-monopoly capitalism, which is the highest stage of domination of the financial oligarchy.



While preaching “class peace” in capitalist society, the leaders of the right-wing socialist parties are at the same time actively helping the bourgeoisie to carry out a broad offensive against the standard of living of the working masses and to stifle the working-class movement in the metropolises and the national liberation movement in the colonies and dependent countries. In the interpretation and appraisal of all the most important economic phenomena of the modern epoch they follow in the footsteps of the bourgeois economists.

A consistent struggle against the reactionary “theories” of bourgeois economists and right-wing socialist leaders is being waged by the Communist and Workers’ Parties, which are guided in their activities by the theory of Marxism-Leninism.

The ideas of advanced Marxist-Leninist theory are becoming more and more widespread among the progressive part of the intelligentsia of the capitalist countries, including economists. An army of advanced scientists and public figures of various views and trends is growing and multiplying, taking an active part in the struggle for the national independence of their peoples, for peace, for the development of economic and cultural ties between all countries, regardless of differences in their social systems.

## **The Development of the Marxist Political Economy of Capitalism by V. I. Lenin. The Elaboration of a Number of New Principles of the Political Economy of Capitalism by J. V. Stalin.**

The economic doctrine of Marx and Engels received its further creative development in the works of V. I. Lenin (1870-1924). Marx, Engels and Lenin are the founders of a genuinely scientific political economy. As a faithful follower and continuer of the teachings of Marx and Engels, Lenin waged an irreconcilable struggle against the open and hidden enemies of Marxism. Lenin defended the revolutionary doctrine of Marx and Engels against the attacks of bourgeois pseudoscience, against its distortions by revisionists and opportunists of all stripes. On the basis of a generalisation of the new historical experience of the class struggle of the proletariat, he raised the doctrine of Marxism to a new, *higher level*.

Lenin entered the arena of political struggle in the 90s, when the transition from pre-monopoly capitalism to imperialism was coming to an end, when the centre of the world revolutionary movement had shifted to Russia, the country where the greatest popular revolution was brewing.

In his works of the 90s, "On the So-Called Question of the Markets" (1893), "What Are the 'Friends of the People' and How Do They Fight the Social Democrats?" (1894), "The Economic Content of Narodism and Its Criticism in Mr. Struve's Book" (1894), "On the Characteristics of Economic Romanticism" (1897)—Lenin consistently waged a struggle against both the Narodniks and the "legal Marxists," who glorified capitalism, glossed over its deep contradictions, and strove to subordinate the growing working-class movement to the interests of the bourgeoisie. The ideological defeat of Narodism was completed by Lenin's classic work *The*

Development of Capitalism in Russia (1899), which is the largest work of Marxist literature since the publication of Marx's Capital.

In this work and in other works of the 90's, Lenin gave a profound analysis of the Russian economy, revealed the economic foundations of class contradictions and class struggle, and the prospects of the revolutionary movement. Summarizing the experience of the economic and political development of Russia and other countries in the last decades of the nineteenth century, Lenin defended and developed the Marxist propositions on the laws of the origin and development of the capitalist mode of production, on its insoluble contradictions and inevitable destruction. In refuting the Narodnik fabrications about the "artificiality" of Russian capitalism, Lenin revealed the peculiar features of Russia's economy and social system connected with the peculiarities of its historical development, in particular the combination of the methods of capitalist exploitation with the numerous remnants of feudal oppression, which gave social relations in Russia a special acuteness.

In the struggle against the Narodniks' contempt for the proletariat, Lenin showed that the development of capitalism inevitably leads to an increase in the numbers, organisation, and consciousness of the working class, which is the vanguard of the entire mass of the working and exploited. He comprehensively substantiated the leading role of the proletariat in the revolution.

Lenin elucidated the essence of the processes of differentiation of the peasantry in post-reform Russia and the close interweaving of the survivals of feudal bondage with the oppression of capitalist relations, refuting the Narodnik conception of the peasantry as a homogeneous mass. He gave an economic justification for the possibility and necessity of a revolutionary alliance between the working class and the toiling and exploited masses of the peasantry.

Lenin revealed the economic basis of those peculiarities of the Russian revolution which made it a revolution of a new type, a bourgeois-democratic revolution under the hegemony of the proletariat, which had the prospect of *developing* into a socialist revolution.

The Development of Capitalism in Russia sums up a number of Lenin's works on *the theory of capitalist reproduction*. In these works, he demolished the Sismondist assertions of the Narodniks about the impossibility of realizing surplus value without the existence of small producers and an external market, and gave a comprehensive justification of the Marxist thesis that the market for capitalism is created in the course of the development of capitalism itself. Lenin further developed the Marxist theses on the contradictions of capitalist realisation, on the growth of the organic composition of capital as a factor in the impoverishment of the proletariat, and on the inevitability of periodic crises of overproduction under capitalism.

A most valuable contribution to Marxist political economy is Lenin's works on the *agrarian question*, which scientifically summarize extensive material on the development of capitalism in agriculture in Russia and a number of other countries (France, Germany, Denmark, the USA, and so on). In his works *The Agrarian Question and Marx's Critiques* (1901-1907), *The Agrarian Program of Social-Democracy in the First Russian Revolution of 1905-1907* (1907), *New Data on the Laws of the Development of Capitalism in Agriculture* (1914-1915), and others, Lenin profoundly and comprehensively investigated the laws of capitalist development of agriculture, which Marx outlined only in general terms.

In the struggle against Western European and Russian revisionism, which declared agriculture to be a sphere of the economy in which the laws of concentration and centralisation of capital were allegedly inapplicable, Lenin gave a scientific analysis of the peculiarities of the

development of capitalism in the countryside. He showed the profound contradictions in the economic position of the main peasant masses and the inevitability of their ruin in bourgeois society. Lenin defended and developed the Marxist theory of differential and absolute ground rent! Having revealed the significance of absolute rent as one of the most important factors hindering the development of productive forces in agriculture, Lenin comprehensively elaborated the question of the possibility, conditions, and economic consequences of the nationalisation of the land in the bourgeois-democratic and socialist revolutions. He exposed the bourgeois economists who preached the pseudo-scientific “law of diminishing fertility of the soil.” Fighting against the opportunist line of the West-European parties of the Second International and Russian Menshevism, including Trotskyism, in relation to the peasantry, Lenin substantiated the need for a policy of the working class which was calculated to transform the main mass of the peasantry into an ally of the revolutionary proletariat.

Lenin’s theory of the agrarian question was a profound economic justification for the policy of the Communist Party of Russia in the sphere of relations between the proletariat and the peasantry, and in particular for its programmatic demand for the nationalisation of the land. Lenin’s writings on the agrarian question form the theoretical basis of the agrarian program and agrarian policy of the fraternal Communist Parties.

Of great importance for the development of Marxist theory is the struggle waged by Lenin in his famous work *Materialism and Empirio-Criticism*. This book dealt a crushing blow to the very roots of revisionist “theories” - their idealist philosophy.

Lenin exposed the utter inadequacy of the revisionist critique of Marxist political economy. He showed the bankruptcy of revisionism on all the fundamental questions of the political economy of capitalism -- in the theory of value,

in the theory of surplus value, in the theory of the concentration of capital, in the theory of crises, and so on.

Marx and Engels, who lived in the epoch of pre-monopoly capitalism, naturally could not give an analysis of imperialism. The great merit of the Marxist study of the monopolistic stage of capitalism belongs to Lenin.

Basing himself on the basic tenets of *Das Kapital* and summarizing the new phenomena in the economies of the capitalist countries, Lenin was the first Marxist to give a comprehensive analysis of imperialism as the last phase of capitalism, as the eve of the social revolution of the proletariat. This analysis is contained in his classic work *Imperialism as the Highest Stage of Capitalism* (1916) and in other works of the First World War period: *Socialism and War*, *On the Slogan of the United States of Europe*, *On the Caricature of Marxism and 'Imperialist Economism'*, *Imperialism and the Split in Socialism*, and *The Military Program of the Proletarian Revolution*.

*Lenin's theory of imperialism* proceeds from the premise that the deepest basis of imperialism, its economic essence, is the rule of the monopolies, that imperialism is monopoly capitalism. Lenin made a comprehensive study of the main economic features of imperialism and the concrete forms of the domination of the monopolies. In Lenin's doctrine of imperialism, of the replacement of free competition by the domination of monopolies receiving monopolistically high profits, and of the sources and methods of securing these monopolistically high profits, the basic principles of the basic economic law of monopoly capitalism were given. Characterizing imperialism as a new, higher stage of capitalism, he defined the historical place of imperialism and showed that imperialism is capitalism: monopolistic, parasitic, or decaying and dying. Lenin's theory of imperialism reveals the contradictions of capitalism at the monopolistic stage of its development -- the contradictions between labour and capital, between metropolises and

colonies, and between imperialist countries. It reveals the deep causes that cause the inevitability of imperialist wars for a new division of the world. The sharpening and deepening of all these contradictions reaches the extreme limits, beyond which the revolution begins. Lenin substantiated the just character of the liberation struggle of the peoples against imperialist oppression and enslavement.

Lenin worked out the question of state-monopoly capitalism and the subordination of the apparatus of the bourgeois state to the monopolies. He showed that state-monopoly capitalism means the highest form of capitalist socialisation of production and the material preparation of socialism, on the one hand, and the all-round intensification of the exploitation of the working class and all the working masses, on the other hand.

Lenin discovered the *law of uneven* economic and political development of the capitalist countries during the period of imperialism. Proceeding from this law, he made the great scientific discovery that it was possible to break through the chain of world imperialism in its weakest link, that the victory of socialism was possible initially in several countries, or even in one country, and that it was impossible for socialism to triumph simultaneously in all countries. Lenin substantiated the enormous role of the peasantry as the ally of the proletariat in the revolution. Lenin worked out the national-colonial question and outlined ways to solve it. It proved the possibility and necessity of uniting the proletarian movement in the developed countries and the national liberation movement in the colonies into a common front of struggle against the common enemy, imperialism. Lenin's theory of imperialism was the justification of the necessity of the socialist revolution, the justification of the dictatorship of the working class under the conditions of the new historical epoch, the epoch of the proletariat's direct decisive battles for socialism. In this way, Lenin created a new, complete theory of *socialist revolution*. This theory

served *as a guide to revolutionary action* on a gigantic scale - the Great October Socialist Revolution in the USSR.

Lenin worked out the foundations of the doctrine of the general crisis of capitalism, the historical period of the collapse of the capitalist system and the victory of the new, higher, socialist system. As early as the First World War, he came to the conclusion that the epoch of the comparatively peaceful development of capitalism had passed, that the imperialist war, which was the greatest historical crisis, was the beginning of the era of the socialist revolution. The war had created such an immense crisis, Lenin pointed out on the eve of the Great October Socialist Revolution, that humanity was faced with a choice: either to perish or to surrender its fate to the revolutionary class itself for the quickest transition to a higher mode of production, socialism. From the fact established by Lenin that the socialist revolution matured at different times in the various links of the world capitalist system, the conclusion follows that the collapse of capitalism and the victory of socialism take place through the separation from the capitalist system of individual countries, in which the working class is victorious, marching to power in close and indissoluble alliance with the main working masses of the peasantry and rallying around itself the overwhelming majority of the people. Lenin substantiated the possibility and necessity of the peaceful coexistence of two systems - capitalist and socialist - over a long historical period.

Lenin developed the theory of imperialism and the general crisis of capitalism in an irreconcilable struggle against the bourgeois economists and opportunists of the Second International. He exposed the complete theoretical inconsistency and political harmfulness of Kautsky's anti-Marxist theory of "ultra-imperialism" and its varieties represented by Trotsky and Bukharin. In the struggle against Bukharin's anti-Marxist distortions, Lenin repeatedly stressed that "pure imperialism," without the basic basis of capitalism, never existed, does not exist anywhere, and



never will exist. Imperialism is characterised by the combination of monopolies with exchange, the market and competition. By rising above the old capitalism as its superstructure and direct continuation, imperialism further sharpens all the contradictions of bourgeois society. Lenin showed the deep connection between opportunism and imperialism and exposed the political role of the opportunists as agents of the bourgeoisie in the working-class movement. Lenin laid bare the roots of opportunist tendencies in the working-class movement, showing that these tendencies grow out of the bribery and corruption of the upper strata of the working class by the bourgeoisie. Lenin dealt a crushing blow to the opportunists' apologetic interpretation of state-monopoly capitalism, which they tried to pass off as "socialism." Lenin's writings directed against opportunism are of great importance for the revolutionary movement, for unless the ideological and political content of opportunism and its treacherous role in the working-class movement is exposed, there can be no real struggle against imperialism.

The problems of Marxist-Leninist political economy were further developed and concretised in the decisions and documents of the Communist Party of the Soviet Union and in the works of J. V. *Stalin* (1879-1953) and other associates and disciples of Lenin.

Relying on the works of Marx, Engels, and Lenin, who created a genuinely scientific political economy, Stalin advanced and developed a number of new propositions in the field of economics on the basis of a generalisation of the new experience of historical development and the new practice of the struggle of the working class and its Communist Party. At the same time, Stalin's works consistently defended Marxist political economy against the enemies of revolutionary Marxism and popularised its basic problems and propositions.

Exposing the falsity of the assertions of bourgeois economists and reformists about the mitigation of the contradictions of capitalism in the course of its historical

development, Stalin substantiated the inevitability of the further deepening and sharpening of these contradictions, which testify to the inevitability of the death of capitalism. In Stalin's writings a number of important propositions were developed in the sphere of the agrarian question. In his struggle against revisionism, Stalin, relying on new arguments, showed the complete inconsistency of the theory of the "stability" of small peasant farming. Only the abolition of the system of capitalist slavery can save the peasantry from ruin and poverty. The peasant question is a question of transforming the exploited majority of the peasantry from a reserve of the bourgeoisie into a direct reserve of the revolution, into an ally of the working class fighting for the abolition of the capitalist system. In his work *Marxism and the National Question* (1913) and in other works, Stalin gave further elaboration of the national question. He substantiated the importance of the economic conditions of society in the formation of nations and nation-states. The commonality of the economic life of the people is one of the main characteristics of a nation. The process of the abolition of feudalism and the development of capitalism is at the same time a process of the formation of people into nations. Stalin revealed the importance of the national market for the process of creating national states in Western Europe and outlined the peculiarity of the historical course of the formation of states in the East.

The Communist Party of the Soviet Union, under the leadership of the Central Committee headed by J. V. Stalin, defended Marxist-Leninist theory in general, and Marxist-Leninist economic doctrine in particular, against the attacks of the enemies of Leninism—the Trotskyites, Bukharinites, and bourgeois nationalists. Lenin's theory of socialist revolution.

In a number of Stalin's works (*On the Foundations of Leninism*, *On the Problems of Leninism*, *Economic Problems of Socialism in the USSR*, and reports at congresses and

conferences of the CPSU), Lenin's theses on the economic and political essence of imperialism and the general crisis of capitalism and on the laws governing the development of monopoly capitalism were developed. Basing himself on Lenin's classical instructions about the economic essence of imperialism, which consists in the domination of monopolies and monopolistically high profits, Stalin formulated the basic economic law of modern capitalism. He gave a detailed analysis of the general crisis of capitalism and its two stages: the first, which began during the First World War, and the second, which unfolded during the Second World War, especially after the fall away from the capitalist system of the people's democracies in Europe and Asia.

By exposing the servants of the bourgeoisie who glorify the capitalist system of economy, he proved that modern capitalism is in a state of general all-round crisis, embracing both the economy and politics. The most striking expression of the general crisis of capitalism is the world-historic victory of the Great October Socialist Revolution in the USSR and the split of the world into two systems, capitalist and socialist. An integral part of the general crisis of capitalism is the crisis of the colonial system of imperialism.

Stalin's works shed light on the essence and significance of such features of the general crisis of capitalism as the extreme aggravation of the problem of the market, the chronic underutilisation of enterprises, and constant mass unemployment. By analysing the changes in the nature of the capitalist cycle and economic crises in the modern era, Stalin showed the futility of the bourgeois state's attempts to fight crises and the inconsistency of assertions about the possibility of a planned economy under capitalism. Stalin's writings expose the profoundly reactionary and aggressive nature of fascism and the treacherous role of modern right-wing socialists.

Marxist-Leninist political economy, as well as the theory of Marxism-Leninism as a whole, finds its further

development and enrichment in the decisions of the Communist Party of the Soviet Union and the fraternal Communist Parties, in the works of Lenin's disciples, the leading figures of the Communist Party of the Soviet Union, the leading figures of the fraternal Communist Parties.

## **SECTION THREE. THE SOCIALIST MODE OF PRODUCTION**

### **THE TRANSITION PERIOD FROM CAPITALISM TO SOCIALISM**

## CHAPTER XXII. THE MAIN FEATURES OF THE TRANSITION PERIOD FROM CAPITALISM TO SOCIALISM

### **The Proletarian Revolution and the Necessity of the Transition Period from Capitalism to Socialism.**

The whole course of development of the capitalist mode of production and of the class struggle in bourgeois society inevitably leads to the revolutionary replacement of capitalism by socialism. As has been shown above, in the epoch of imperialism the conflict between the increased productive forces and the bourgeois relations of production, which have become fetters on these productive forces, reaches an unprecedented acuteness. The law of the obligatory correspondence of the relations of production to the character of the productive forces requires the abolition of the old, bourgeois relations of production and the creation of new, socialist relations of production. Hence the objective necessity of *the proletarian, socialist revolution*.

In view of the antagonism between the foundations of bourgeois and socialist societies and the antagonism of the interests of labour and capital, the peaceful “growth” of capitalism into socialism, as preached by the opportunists, is impossible. The transition from capitalism to socialism can be accomplished only through the proletarian revolution and the dictatorship of the proletariat. The proletariat, by virtue of its economic position, is the only class capable of uniting all the working people around itself for the overthrow of capitalism and the victory of socialism.

The proletarian revolution is fundamentally different from all previous revolutions. During the transition from the

slave-holding system to the feudal system and from the feudal to the capitalist, one form of private property was replaced by another form of private property, the power of some exploiters was replaced by the power of other exploiters. Since all exploitative social formations had the same type of basis - private ownership of the means of production - the new economic order gradually matured in the depths of the old mode of production. Thus, the bourgeois revolution usually begins in the presence of more or less ready-made forms of the capitalist system, which have grown and matured in the bosom of feudalism. The main task of the bourgeois revolution is to seize power by the bourgeoisie in order to bring this power into line with the existing capitalist economy. A bourgeois revolution usually ends with the seizure of power.

The aim of the proletarian revolution is to replace private ownership of the means of production by public ownership and to abolish all exploitation of man by man. It does not find any ready-made forms of socialist economy. A socialist system based on social ownership of the means of production cannot grow in the bosom of a bourgeois society based on private property. The task of the proletarian revolution is to establish the power of the proletariat and build a new, socialist economy. The conquest of power by the working class is only the beginning of the proletarian revolution, and power is used as a lever to restructure the old economy and organize a new one.

In view of this, the replacement of the capitalist system by the socialist one requires in each country a special transition period covering an entire historical epoch. 'Between capitalist and communist society lies the period of the revolutionary transformation of the former into the latter. The political transition period also corresponds to this

period, and the state of this period cannot be anything other than the revolutionary dictatorship of the proletariat.”<sup>98</sup>

The period of transition from capitalism to socialism begins with the establishment of proletarian power and ends with the construction of socialism, the first phase of communist society. During the transition period in the country carrying out the proletarian revolution, the old, capitalist basis is abolished and a new, socialist basis is created, and the development of the productive forces necessary for the victory of socialism is ensured. In the transition period, the proletariat must temper itself as a force capable of governing the country, building a socialist society and re-educating the petty-bourgeois masses in the spirit of socialism.

Basing himself on the theses of Marx and Engels, Lenin created an integral doctrine of the transition period from capitalism to socialism and the dictatorship of the proletariat, arming the working class and all working people with scientific knowledge of the ways of building socialism.

The proletarian revolution was victorious first of all in Russia. Russia had a sufficient level of capitalist development for the victory of the proletarian revolution. At the same time, Russia proved to be the focal point of all the contradictions of imperialism, which sharply intensified the process of revolutionizing the proletariat and rallying the peasant masses around it. In October 1917, the proletariat of Russia, led by the Communist Party, armed with Lenin’s theory of socialist revolution, in alliance with the poor peasants, overthrew the power of the capitalists and landlords and established its dictatorship. For the first time in the history of mankind, the Great October Socialist Revolution paved the way for socialism and set an example of what the proletarian revolution should be in its basic features in any country. At the same time, the socialist

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<sup>98</sup> K. Marx, Critique of the Gotha Program, K. Marx, F. Engels, Selected Works, vol. II, 1948, p. 23.



revolution in each country that has fallen away from the system of imperialism inevitably has its own peculiarities, which arise from the concrete historical conditions of the country's development and the international situation.

Lenin discovered and scientifically substantiated the possibility, under certain historical conditions, *of a non-capitalist path of development* in countries that are socially and economically backward. These countries, having thrown off the yoke of imperialism, with the help of the advanced countries where the proletarian revolution has triumphed, can avoid the long and painful process of the development of capitalism and, bypassing the capitalist stage, gradually pass over to the path of building socialism.

### **The Dictatorship of the Proletariat as an Instrument for Building a Socialist Economy.**

Since the task of the proletarian revolution is to abolish all exploitation, it cannot do without smashing the old state machine, which is designed to suppress the working masses. The proletarian revolution gives birth to a *new type of state*, the dictatorship of the proletariat. Without the dictatorship of the proletariat as a political superstructure, the economic emancipation of the working people is impossible, the transition from the capitalist to the socialist mode of production is impossible.

*The dictatorship* of the proletariat is the state leadership of society, exercised by the working class. The state, in all its previous forms, suppressed the exploited majority in the interests of the exploiting minority. The dictatorship of the proletariat suppresses the exploiting minority in the interests of the working majority.

The dictatorship of the proletariat is true democracy; It expresses the vital interests of the working people. Under

the dictatorship of the proletariat, for the first time in history, the working people become masters of their country. If bourgeois revolutions, while consolidating a new, capitalist form of exploitation, cannot rally the toiling and exploited masses around the bourgeoisie for any long period, then the proletarian revolution, which abolishes all exploitation, can and must bind these masses to the proletariat in a lasting alliance. The alliance of the working class with the peasantry under the leadership of the working class, directed against the exploiting classes, is the supreme principle of the dictatorship of the proletariat. Without this alliance, it is impossible to consolidate the power of the proletariat and build a socialist economy.

The dictatorship of the proletariat is a continuation of the class struggle of the proletariat under new conditions and in new forms against the exploiters within the country and against the aggressive forces of the capitalist environment. "The dictatorship of the proletariat is a stubborn struggle, bloody and bloodless, violent and peaceful, military and economic, pedagogical and administrative, against the forces and traditions of the old society."<sup>99</sup>

In accordance with the tasks of building socialism, the dictatorship of the proletariat has three main aspects. It means, first, the use of power by the proletariat to suppress the exploiters, to defend the country, to strengthen ties with the proletarians of other countries; secondly, for the final separation of the toiling and exploited masses from the bourgeoisie, for the consolidation of the alliance of the proletariat with these masses, for the drawing of these masses into the work of socialist construction; Thirdly, to build a new, socialist society.

The dictatorship of the proletariat as a political superstructure is generated by the urgent economic need of society for the transition from capitalism to socialism. But

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<sup>99</sup> V. I. Lenin, *Infantile Disease of 'Leftism' in Communism*, Works, vol. 31, p. 27.

once born, the dictatorship of the proletariat as an instrument for building a socialist economy itself becomes the greatest force. It is actively promoting its socialist basis to take shape and strengthen itself, ensuring the liquidation of the old, capitalist basis, and the victory of socialist forms of economy over capitalist ones.

Socialist forms of economy cannot arise and develop spontaneously, spontaneously. They arise and develop as a result of the planned activity of the proletarian state and the creative activity of the working masses.

The proletarian state can fulfil its task of creating a new basis only because it relies on the objective economic law of the obligatory correspondence of the relations of production to the character of the productive forces, and on the new economic laws arising on the basis of the new economic conditions. The dictatorship of the proletariat ensures the creation of a higher type of social organisation of labour than capitalism. This is the main source of the strength of the socialist system and its victory over the capitalist system.

The forms of the proletarian state may vary. "The transition from capitalism to communism, of course, cannot fail to produce an enormous abundance and variety of political forms, but the essence will inevitably be the same: the dictatorship of the proletariat."<sup>100</sup>

In the countries of the dictatorship of the proletariat, the leadership of the entire process of the planned construction of the socialist economy belongs to the Communist (Workers') Parties. Armed with the theory of Marxism-Leninism and knowledge of the laws of the economic development of society, these parties organize and direct the masses of the people to solve the problems of socialist construction.

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<sup>100</sup> V. I. Lenin, *State and Revolution*, Works, vol. 25, p. 385.

## Socialist Nationalisation.

The development of capitalism has made the socialist socialisation of large-scale machine industry, mechanised transport, banks, etc., economically necessary and possible. In view of this, the proletarian state nationalises large-scale capitalist production at the beginning of the transition period, thereby depriving the capitalists of their dominant position in the economy.

*Socialist nationalisation* is the revolutionary seizure by the proletarian power of the property of the exploiting classes and its transformation into state, socialist property -- the property of the whole people. Socialist nationalisation leads to the elimination of the basic contradiction of capitalism—the contradiction between the social character of production and the private capitalist form of appropriation.

Of decisive importance for socialist construction is the nationalisation of large-scale industry, which is the leading branch of the national economy. At the same time, there is the nationalisation of banks, railway transport, merchant marine and means of communication, large enterprises of domestic trade, as well as the nationalisation of foreign trade. As a result of the nationalisation of the banks, the bourgeoisie loses one of the most important levers of its economic domination, and the proletarian state acquires a centralised and ramified economic apparatus, which, after its revolutionary transformation, is used to build socialism. The nationalisation of foreign trade is a necessary condition for ensuring the economic self-sufficiency and independence of the country of socialism under construction from the capitalist world.

Socialist nationalisation, in the first place, deprives the capitalists of the means of production and thereby destroys the economic domination of the bourgeoisie in the country; Secondly, it brings the economic basis under the dictatorship

of the proletariat, placing in the hands of the working people *the commanding heights* of the national economy, i.e., the leading branches of the economy. In these branches, social ownership of the means of production is established as the basis of socialist relations of production.

Proceeding from the urgent need to abolish the survivals of serfdom and landlordism, which has long outlived its usefulness, the proletarian state carries out the immediate *confiscation of the* lands of the big landowners and their farms with living and dead implements. Most of the confiscated land is transferred to the toiling peasantry. On a lesser part of the confiscated land, large state-owned agricultural enterprises are being organised.

One of the most important measures of the socialist revolution is the *nationalisation of* the land, that is, the abolition of private ownership of land and the transfer of land to the ownership of the proletarian state. The question of the methods and timing of the nationalisation of the whole land is decided by the proletarian government, depending on *the* concrete conditions of each country. In Russia, where the peasants' traditions of private ownership of land were weaker than in the West, the Soviet government, in accordance with the demands of the peasant masses, nationalised all the land at the very beginning of the revolution. In this way the absolute rent of land disappeared. For the first time in history, the Soviet peasantry received land from the hands of the proletarian revolution for free use. In those countries where small-peasant private ownership of land has existed for a long time, and where, therefore, the peasants have a stronger tradition of private ownership of land, the working class, which has come to power, does not nationalise all the land at the beginning of the revolution. In these countries, only a part of the land confiscated from large landowners is nationalised, which forms a state fund; Most of the confiscated land becomes the private property of the peasants. The question of the

nationalisation of all land is practically solved in the course of the socialist reconstruction of agriculture.

The Great October Socialist Revolution, having smashed the state apparatus of the bourgeoisie, nationalised and deprived the landlords and big capitalists of the means of production and other wealth free of charge in the first months.

On October 26 (November 8), 1917, the Land Decree was issued. The lands that were in the hands of the landlords, the bourgeoisie, the royal family, churches and monasteries were confiscated, alienated without redemption. The right of private ownership of land was abolished forever. All the land, together with its mineral resources, forests and waters, became state property (national property). The purchase and sale of land was prohibited. The peasantry received free use of more than 150 million dessiatines of new land, except for those lands that they used before the revolution, and was freed from rent payments to landlords, as well as from the cost of buying land in the total amount of more than 700 million rubles in gold annually. The nationalisation of land was the basis for the liquidation of the landlord class. It meant the complete eradication of the remnants of serfdom. In this way, the socialist revolution casually solved to the end the tasks of the bourgeois-democratic revolution. The nationalisation of land did not in itself create socialist relations of production in the countryside, since private farming continued on the land that had become national property. But it was of great importance for socialist construction. The nationalisation of land strengthened the economic base of the dictatorship of the proletariat and improved the economic situation of the working peasants. It further facilitated the transition of the peasantry to the path of socialist development.

As a transitional measure to the broad nationalisation of capitalist enterprises and in order to regulate their activities to a certain extent, the Soviet government introduced workers' control, i.e., control by the collectives of workers in these enterprises over production, trade and finance. In December 1917, the *banks were nationalised*. The Soviet

government cancelled all loans received by the tsarist and provisional governments from both foreign and domestic capitalists. Foreign trade was declared a state monopoly, and the import and export of goods from abroad were taken out of the hands of private individuals and handed over to state bodies. *The monopoly of foreign trade* introduced by the Soviet government was a barrier that reliably protected the country from the economic aggression of the imperialists, who sought to enslave it and turn it into their colony. *Railways* and means of communication, sea and large river *merchant fleets* became the property of the whole people. The Soviet government increasingly *nationalised industrial enterprises* by confiscating them, without redemption. In June 1918, the nationalisation of large enterprises in all branches of industry was announced.

The nationalisation of large-scale industry, banks, transport, and foreign trade meant that Soviet power had broken the economic might of the bourgeoisie and seized the commanding heights of the national economy.

In the nationalised enterprises, capitalist relations of production were replaced by socialist ones. The means of production, having passed into social ownership, ceased to be capital. The exploitation of man by man was abolished. A new, socialist discipline of labour was introduced. Socialist emulation was emerging among the workers. Gradually, socialist principles of production management were inculcated, combining one-man management with the creative activity of the masses.

Overcoming the resistance of the bourgeoisie, the wrecking and sabotage of the bourgeois specialists, and in a stubborn struggle against the petty-bourgeois element, the Soviet government proceeded to organize national accounting and control over the production and distribution of products.

## **Economic Structures and Classes in the Transition Period. An Alliance Between the Working Class and the Peasantry.**

As a result of the nationalisation of large-scale industry, transport, banks, etc., a socialist economic structure emerged. Along with the socialist system, which is based on social ownership of the means of production, in the transition period there are still structures (i.e., forms of economy) inherited from the past and based on private ownership of the means of production. This means that the economy of transition is multi-structured.

As Lenin pointed out, during the transition period in the USSR there were the following five economic structures: (1) patriarchal peasant farming, (2) small-scale commodity production, (3) private capitalism, (4) state capitalism, and (5) socialist economy.

*The patriarchal peasant economy*, based on personal labour, was a small, almost entirely subsistence economy, that is, it produced products for the most part for its own consumption.

*Small-scale commodity production* was an economy based on personal labour and connected to a more or less significant extent with the market. It was predominantly a middle peasant farm, which produced the bulk of marketable grain, as well as a handicraft economy that did not employ hired labour. During the transition period, the small-scale commodity system embraced the majority of the country's population for a considerable time.

*Private economy capitalism* was represented by the most numerous of the exploiting classes—the kulaks, the owners of non-nationalised, mainly small and medium-sized capitalist industrial enterprises, and merchants. In capitalist enterprises, wage labour was employed, labour power remained a commodity, and there were relations of exploitation and surplus value.



*State capitalism* existed mainly in the form of concessions granted by the Soviet government to foreign capitalists and in the form of certain state-owned enterprises leased to the capitalists. State capitalism under the dictatorship of the proletariat differs essentially from state capitalism under the rule of the bourgeoisie. Under the dictatorship of the proletariat, state capitalism is an economic structure strictly limited by the proletarian power and used by it for the struggle against the petty-bourgeois element, for socialist construction. In the economy of the USSR, state capitalism occupied a very insignificant place.

*The socialist structure* included, first, factories, plants, transport, banks, state farms, trade and other enterprises in the hands of the Soviet state, and, second, cooperatives - consumer, supply, credit, production, including its highest form - collective farms. The basis of the socialist system was large-scale machine industry. Already at the beginning of the transition period, the socialist structure, which is the highest type of economy in comparison with all other modes, began to play a leading role in the country's economy.

In the socialist sector of the economy, labour power ceased to be a commodity, labour lost the character of wage labour and turned into labour for oneself, for one's society. Surplus value has disappeared. Gradually, there was a transition to planning the work of nationalised enterprises on the scale of industries, and later on the scale of the entire state sector as a whole. As a result of the establishment of socialist ownership of the means of production, the products produced in state enterprises began to go not to the capitalists, but to the state, that is, to all the working people.

The existence of all five modes is not inevitable for every country building socialism. As Lenin taught, and as is now confirmed by historical experience, in every country in the period of transition from capitalism to socialism there exist the following basic forms of social economy: socialism, small-

scale commodity production, capitalism. These forms of social economy correspond to classes: the working class, the petty bourgeoisie (especially the peasantry), and the bourgeoisie. The main features of the economy, of class relations, and, consequently, of the foundations of the economic policy of the dictatorship of the proletariat in the transition period are common to all countries, which does not exclude, but presupposes the presence of specific features in each country.

The position of classes in the transition period as compared with their position under capitalism changes radically.

*The working class* has gone from being an oppressed class under capitalism to the ruling class, which holds power in its hands and owns, together with all the working people, the means of production socialised by the state. The material condition of the working class is steadily improving, and its cultural level is rising.

The peasantry, the poor and middle peasant masses, receive land from the socialist state, emancipation from the landlord yoke, protection from the kulak, and all-round economic and cultural assistance. As a result of the October Revolution and the assistance of the Soviet government, the middle and poor peasants already produced over 4 billion poods of grain in 1926/27, whereas before the revolution they produced 2.5 billion poods a year.

Peasant small-commodity production inevitably gives rise to capitalist elements; The class stratification of the peasantry into the poor peasants and the kulaks is taking place. But the process of differentiation of the peasantry in the transition period is of a different character from that of capitalism. Under capitalism, the poor peasants and kulaks are growing in the countryside, while the middle peasantry is shrinking, the mass of the peasantry is ruined and swelling the ranks of the poor peasants and the proletariat. In the transition period in the USSR, before the main mass of the

peasantry embarked on the path of socialism, there was an increase in the number and proportion of the middle peasants at the expense of the reduction of the poor peasants, part of whom rose to the level of the middle peasants. At the same time, the kulaks grew to a much smaller extent than under capitalism; The middle peasant became the central figure of agriculture.

After the October Revolution, as early as 1918, the middle peasants prevailed among the peasants. This happened because the peasants received free land, part of the landowner's livestock and equipment. In 1918, a partial expropriation of the kulaks was carried out, from which 50 million hectares of land were taken away and transferred to the poor and middle peasants. In 1928/29, among the peasant households there were: poor people 35%, middle peasants 60%, Kulaks-4-5%.

In its policy towards the peasantry during the transition period, the Soviet government was guided by Lenin's formula: a firm alliance with the middle peasantry, reliance on the poor peasants, and an irreconcilable struggle against the kulaks. Lenin teaches that the working class, in leading the peasantry, must always distinguish between the two sides of the peasant, the toiler and the private proprietor.

The middle peasant is of a dual nature: as a toiler he gravitates towards the proletariat, as a small proprietor towards the bourgeoisie. Both the bourgeoisie and the proletariat strive to win over the masses of the middle peasantry. At the same time, the working class appeals to the fundamental interests of the peasant as a toiler, while the bourgeoisie tries to exploit the private property interests of the peasant. In the transition period, especially as long as the peasantry bases its existence on private property and small-scale commodity production, there are certain non-antagonistic contradictions between the working class and the peasantry, for example, on the question of prices and the

amount of taxes. But these contradictions are not fundamental. On fundamental questions the interests of the working class and the labouring masses of the peasantry coincide -- both classes are vitally interested in the abolition of exploitation and in the victory of socialism. That is the basis of a firm alliance between the two friendly classes, the working class and the peasantry.

The principle of the alliance of the working class with the peasantry, with the leading role of the working class, is the basis of socialist construction. "The most important *political* task of the Party," says the decision of the Twelfth Congress of the R.C.P.(B.), "which determines the entire outcome of the revolution, is to *preserve and develop the alliance between the working class and the peasantry with the greatest attention and thoroughness.*"<sup>101</sup>

A firm alliance between the working class and the peasantry is an indispensable condition for correct economic relations between town and country, between industry and agriculture. agriculture, the rise of agriculture and its socialist transformation. Only on the basis of an alliance between the working class and the peasantry can the abolition of capitalist forms of economy and the victory of socialism be assured.

The working class and the peasantry are the main classes in the transition period.

*The bourgeoisie*, with the loss of power and the main means of production, is no longer one of the main classes of society. The big capitalists and a large section of the urban middle bourgeoisie are deprived of the means of production at the beginning of the transition period. But after that, there remains a section of the urban bourgeoisie, as well as the rural bourgeoisie, the kulaks. During a number of years of the transition period, the bourgeoisie still retains

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<sup>101</sup> Resolution of the XII Congress of the RCP (B), "The CPSU in Resolutions and Decisions of Congresses, Conferences and Plenums of the Central Committee", Part I, ed. 7, pp. 682-683.

considerable strength. This is explained by the inevitability of the spontaneous emergence of capitalist elements from small-scale commodity farming, by the impossibility of replacing capitalist economy by socialist economy in all branches of the economy at once. Even after the loss of its rule, the bourgeoisie retains to a greater or lesser extent its monetary and material resources, as well as its ties with a considerable stratum of old specialists. It relies on the support of international capital.

The fundamental contradiction of the economy of the transition period is the contradiction between socialism, which was born but at first still weak, and to which the future belongs, and the overthrown, but at first still strong, capitalism, which has its roots in small-scale commodity economy and represents the past. In all spheres of economic life, during the transition period, the struggle between socialism and capitalism is unfolding according to the principle of “who - whom”. Between the working class and the main mass of the peasantry, on the one hand, and the bourgeoisie, on the other, there are antagonistic and irreconcilable contradictions. In the transition period, the proletarian state first pursues a policy of restricting and ousting the capitalist elements, and then a policy of their complete elimination. For the transition period, the intensified class struggle of the proletariat, of the toiling masses against the bourgeoisie, whose resistance intensifies as socialist construction unfolds, is natural.

## **The Emergence of the Economic Laws of Socialism.**

To the extent that the socialist sector had taken possession of the commanding heights of the economy, capitalist forms of economy and the laws of their

development had already lost their dominant position in the national economy in the USSR at the beginning of the transition period. The development of the national economy has ceased to be determined by the operation of the basic economic law of modern capitalism. The sphere of action of the law of surplus value extended only to capitalist forms of economy and became more and more limited.

On the basis of new economic conditions, new economic laws inherent in socialist relations of production arose and gradually expanded their sphere of action.

With the formation and development of the socialist system, the *basic economic law of socialism* emerged and gradually began to operate, which determined the new goal of production. In the socialist sector, production began to be carried out not for the sake of deriving capitalist profit, but in the interests of satisfying the material and cultural needs of the working people, in the interests of building socialism. With the consolidation and development of socialist relations of production, more and more conditions were created for the achievement of this goal through the continuous and rapid growth of industry and the widespread introduction of advanced technology.

In the country's economy, along with the socialist sector, there were small-scale commodity and capitalist sectors. The problem of "who wins" has not yet been solved. As a result, the scope of the basic economic law of socialism was limited. He operated within the framework of the socialist order. But since the socialist system played a leading role and its share in the country's economy was constantly increasing, the basic economic law of socialism exerted an ever-increasing influence on the development of the entire national economy.

In its economic policy, the Soviet state relied on this law, developing socialist production, introducing advanced technology into all branches of the economy, and striving for a systematic improvement in the well-being of the working

people to the extent possible under the difficult conditions of the transition period.

Public ownership, by uniting the enterprises of the socialist sector, makes its planned development necessary and possible. On the basis of socialist relations of production in the transition period, the economic law of the planned (proportional) *development of the national economy* arises and gradually begins to manifest itself. This law required the planned management of the economy and the establishment in a planned manner of such proportions between the branches of the economy as were necessary for the victory of socialism and for the satisfaction of the growing needs of society. At first, the scope of this new law was narrow, since the socialist system embraced a smaller part of the national economy, and the Soviet government was just beginning to take over the business of planning. As the socialist system developed, the law of competition and the anarchy of production lost its force, and more and more scope opened up for the operation of the law of the planned development of the national economy.

In the socialist system, the law of the value of labour-power ceased to operate. On the basis of the new relations of production, the economic law of distribution according to labour arose and began to operate, *according* to which each worker should receive a payment corresponding to the labour expended by him.

All this meant a radical change in the conditions for the *operation of the law of value*. In so far as commodity production and circulation continued to exist, the law of value was also preserved. However, due to the socialisation of the main means of production, the sphere of commodity production and the law of value was limited, and their role became fundamentally different from that under capitalism.

The law of value, with certain limitations, acted as a regulator of production in the small-scale commodity and

capitalist sectors of the national economy. But it was not a regulator of production in the state-run socialist sector.

The proletarian power increasingly mastered commodity production, the law of value, trade, and money circulation, using them for the development of socialist forms of economy and for the struggle against capitalist elements. Proceeding from Lenin's propositions on the new role of trade and money in the conditions of the transition period, Stalin pointed out: "The point is not at all that trade and the monetary system are the methods of the 'capitalist economy.' The point is that the socialist elements of our economy, while fighting the capitalist elements, are mastering these methods and weapons of the bourgeoisie in order to overcome the capitalist elements, that they are successfully using them *against* capitalism, *that* they are *successfully* using them to build the socialist foundation of our economy. The point, therefore, is that, thanks to the dialectics of our development, the functions and functions of these instruments of the bourgeoisie are changing *fundamentally, radically*, in favour of socialism, to the detriment of capitalism."<sup>102</sup>

## **Fundamentals of Economic Policy in the Period of Transition from Capitalism to Socialism.**

The building of socialism is impossible without a correct account of the objective economic conditions of the transition period and of the economic laws that arise on the basis of these conditions. In its policy, the Communist Party proceeded from Lenin's plan for building socialism, relied on

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<sup>102</sup> J. V. Stalin, Concluding remarks on the political report of the Central Committee to the Fourteenth Congress of the CPSU (b), Works, vol.7, pp. 369-370.



economic laws, and took into account the real correlation of class forces.

Of paramount importance for the building of socialism in the U.S.S.R. was Lenin's doctrine of the *victory of socialism in one country*. This doctrine armed the Party and the working class with a clear perspective and confidence in the triumph of the ideas of scientific socialism.

On the question of the victory of socialism in one country, it is necessary to distinguish between two sides: the domestic and the international. *The internal* aspect of the question of the victory of socialism in one country embraces the problem of class relations within the country. The Communist Party proceeded from the premise that the working class could overcome its contradictions with the peasantry, strengthen its alliance with it, and draw the peasant masses into the construction of socialism. The working class, in alliance with the peasantry, is quite capable, after capitalism has been smashed *politically*, to overcome its bourgeoisie economically as well, to abolish the exploiting classes and to build a socialist society. *The international* aspect of the question of the victory of socialism in one country embraces the problem of the relations between the country of the proletarian dictatorship and the capitalist countries. Under the conditions of the coexistence of two opposing systems, socialist and capitalist, the danger of armed aggression against the socialist country by the imperialist powers hostile to it remains. This contradiction cannot be resolved by the forces of the proletarian dictatorship alone. Therefore, the victory of socialism can be final only when the danger of intervention and restoration of capitalism by the aggressive imperialist powers has disappeared.

A necessary condition for successful socialist construction in the U.S.S.R. was the defeat of the Trotskyite-Bukharinite restorers of capitalism, who preached theories disarming the working class that it was impossible to build socialism in one

country and that Russia was “not ripe” for socialism because of its technical and economic backwardness.

The Communist Party proceeded from Lenin’s propositions that the U.S.S.R. possessed everything necessary and sufficient for the complete construction of socialism, and that Russia’s technical and economic backwardness could be completely overcome under the conditions of the dictatorship of the proletariat. Historical experience has fully confirmed the correctness of Lenin’s theses.

Lenin’s plan for building socialism in the USSR contained the idea of creating a powerful socialist industry as the material basis of socialism and a necessary condition for the gradual transition of small peasant farms to large-scale collective production through their cooperatives. Of paramount importance in Lenin’s program for the construction of socialism was the state plan for the electrification of Russia, the *GOELRO* plan, adopted in 1920. It was the first long-term plan for the development of the national economy in the history of mankind, designed to create the production and technical basis of socialism within 10-15 years.

“The victory of socialism over capitalism and the consolidation of socialism can be regarded as assured only when the proletarian state power, having finally crushed all resistance of the exploiters and having secured for itself perfect stability and complete subordination, reorganises all industry on the basis of large-scale collective production and the latest (based on the electrification of the entire economy) technical basis. Only this will make possible such radical assistance, technical and social, rendered by the town to the backward and scattered countryside that this assistance will create the material basis for an enormous increase in the productivity of agricultural labour and agricultural labour in general, thereby inducing the small

farmers by example and for their own benefit to pass over to large-scale, collective, machine farming.”<sup>103</sup>

The most important condition for the implementation of Lenin’s plan for the construction of socialism was the all-round development of economic ties between state industry and peasant farming. From the character of small peasant farming it follows that the vital form of economic connection between the peasants and the city is exchange through purchase and sale. In the transition period, the trade bond between state industry and small-peasant farming became an economic necessity.

Consequently, the existence of peasant farming in the transition period necessitates the use of the market and money economy in the construction of socialism.

As early as the spring of 1918, the Soviet government began to organize the exchange of goods with the countryside by means of purchase and sale. Preparations for monetary reform have begun. But in view of foreign intervention, it was necessary to put the entire economy at the service of the front under conditions of extremely limited material resources. The intervention dramatically increased the devastation of the country caused by the First World War. The Soviet government did not have industrial goods to exchange for agricultural products, the quantity of which was also greatly reduced. It was impossible to procure agricultural products for the army and the city by the method of buying and selling. In addition to the market, they had to be obtained by means of food *appropriation*, i.e., the seizure by the state of all surplus food from the peasants. Thus objective conditions compelled the Soviet government to introduce a policy which came to be called “War Communism.”

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<sup>103</sup> V. I. Lenin, Initial Outline of Theses on the Agrarian Question. Works, vol. 31, p. 138.

The appropriation of food was necessitated by the most acute need: it was necessary to give bread to the army, to save the working masses from starvation. In view of the lack of commodity resources in the State, trade in basic products was prohibited to prevent them from falling into the hands of speculators. Consumer goods in the cities were issued on ration cards at very low rates. The class principle was observed in the distribution; In addition, the size of the rations depended on the severity of the work and the importance of the enterprise. Universal labour conscription was introduced. The bourgeoisie was involved in compulsory socially useful work. The conditions of the war demanded that the Soviet government should take into its own hands not only large and medium-sized industry, but also a considerable part of small industry. In view of the limited resources in industry, a system of rigid centralised supply in kind was introduced, subordinated to the tasks of servicing the front. Enterprises received and delivered products on warrants, without monetary payment, and did not have any economic independence. As a result of the imperialist and civil wars, the national economy of the U.S.S.R. reached an extreme decline. In 1920, as compared with 1913, the output of large-scale industry fell by almost seven times, and the output of agriculture by about half. Masses of paper money were issued to cover government expenditures, which quickly depreciated.

The workers at the enterprises, as well as the Red Army soldiers on the fronts, showed mass heroism. Such forms of competition as communist subbotniks were of great importance at that time. The working class gained experience in managing production.

In the context of foreign intervention and civil war, a military-political alliance between the working class and the peasantry was formed and strengthened. It was intended to unite the efforts of workers and peasants in order to repel the onslaught of foreign invaders and White Guards, to defend the Motherland, the state of workers and peasants. The Soviet government gave the peasantry land and protection from the landowner and the kulak; the peasantry provided the working class with food on a pro-development basis - such was the basis

of the military-political alliance of workers and peasants under 'military communism.'

"War Communism" was inevitable under certain historical conditions, in conditions of civil war and economic devastation. But "War Communism" with surplus-appropriation and the prohibition of trade deprived the peasants of material interest in the production of products; It is incompatible with the economic bond between town and country. Therefore, in the absence of intervention and the economic devastation caused by the long war, the proletarian state dispenses with "War Communism." This has been confirmed by the experience of people's democracies.

In the spring of 1921, after putting an end to foreign intervention and civil war, the Soviet government switched to the New Economic Policy (NEP), so called in contrast to the policy of "War Communism." The basic principles of the New Economic Policy were worked out by Lenin in the spring of 1918, but their implementation was interrupted by intervention. It was only three years later that the Soviet government was able to proclaim this policy again and proceed to its consistent implementation.

*The new economic policy* pursued by the Soviet government during the transition period is an economic policy aimed at building socialism through the use of the market, trade, and money circulation. The essence of this policy is the *economic* alliance of the working class with the peasantry, which is necessary for drawing the peasant masses into socialist construction.

Expounding the tasks of NEP, Lenin said at the beginning of 1922: "To unite with the peasant masses, with the rank and file working peasantry, and begin to move forward immeasurably, infinitely slower than we dreamed, but in such a way that the whole mass will really move with us.

Then the acceleration of this movement will in due time come in such a way that we cannot even dream of now.”<sup>104</sup>

With the transition to NEP, the first task was to restore the economy. It was necessary to begin by creating the economic interest of the toiling peasants in the rapid development of agriculture in order to provide the urban population with food and industry with raw materials. On this basis, state industry had to be pushed forward and closely linked with agriculture, supplanting private capital. Then, having accumulated sufficient funds, it was necessary to solve the problem of creating a large-scale socialist industry capable of reorganising agriculture on socialist principles, and to launch a determined offensive against the capitalist elements in order to liquidate them completely.

The New Economic Policy was designed to allow capitalism within certain limits, with the commanding heights in the hands of the proletarian state, to wage a struggle between the socialist elements and the capitalist elements, to ensure the victory of the socialist elements in this struggle, to liquidate the exploiting classes and to create the economic basis of socialism.

At the beginning of NEP, trade was the main link that had to be grasped in order to pull out the whole chain of economic construction. The end of the war made it possible to replace the food appropriation with a *food tax*. The tax in kind, the amount of which was fixed in advance, before the spring sowing, was smaller in size than the surplus appropriation and left the peasants with surpluses of grain and other products for free sale on the market, to be exchanged for manufactured goods. Lenin stressed the urgent need to learn how to trade in such a way that socialist industry would satisfy the needs of the peasantry.

The need for commodity circulation between town and country led to the development of commodity relations in

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<sup>104</sup> V. I. Lenin, Political Report of the Central Committee of the RCP (b) to the XI Congress of the RCP (B), Works, vol.33, p. 243.

industry itself and required the strengthening of the country's monetary economy. With the transition to the New Economic Policy, natural supply in industry was replaced by a system of buying and selling, state enterprises were transferred to economic accounting, and began to work more and more on the principle of self-sufficiency, with the achievement of a certain profitability. The system of supplying the population by ration cards was replaced by a full-scale trade. In 1924, the monetary reform was completed, which provided the country with a stable currency.

Basing itself on the law of the planned development of the national economy, the Soviet government gradually limited the sphere of action of the law of value and gradually proceeded to the planning of state industry.

Within the state sector, the Soviet government carried out direct planning, bringing production tasks to enterprises. It began to set fixed prices for goods produced by state-owned enterprises. In the case of peasant farming, such planning was impossible. The influence of the state on the peasant economy was carried out through indirect economic regulation - through trade, supply, procurement, prices, credit, and finance. These economic instruments were used by the Soviet state to strengthen the bond with peasant farming and to strengthen the leading role of the socialist system. The operation of the law of value on the private market manifested itself in the fact that prices were formed spontaneously, competition was preserved, speculation took place, and capitalist elements profited at the expense of the working people. Concentrating in its hands the growing mass of commodities and expanding the procurement of agricultural products, the Soviet state, in a stubborn struggle against the capitalist elements, began to determine the prices of grain and other important commodities in the main, restricting in every possible way the free play of market

prices. The regulatory role of the state in relation to the private market became more and more intense.

The XI All-Russian Conference of the R.C.P.(B.) set the task: "Proceeding from the existence of the market and taking into account its laws, to master it and, by means of systematic, strictly thought-out economic measures based on an accurate account of the market process, to take into our own hands the regulation of the market and the circulation of money."<sup>105</sup> The Communist Party and the Soviet state have successfully coped with this task.

Relying on socialist industry, on the financial and credit system, on state trade, and on the co-operatives, the Soviet government in the fierce class struggle consistently pursued a policy of restricting and ousting the capitalist elements—the industrialists, kulaks, and merchants. Taxation of capitalists was intensified, and their opportunities to use the means of production and wage labour were reduced. This means that the scope of the law of surplus-value was increasingly restricted. Whereas in the first years of NEP there was a revival and growth of the capitalist elements within certain limits, their role in the economy soon began to decline more and more intensively.

A necessary condition for the development of state industry was the use of the workers' personal material interest in the development of socialist production.

Proceeding from the law of distribution according to labour, the socialist state built the wages of workers and employees in greater and greater accordance with the quantity and quality of labour expended by each worker. This stimulated a systematic increase in labour productivity.

During the transition period, there was a two-way process in the economy. On the one hand, up to a certain time and within certain limits, capitalist elements grew

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<sup>105</sup> Resolution of the Eleventh All-Russian Conference of the R.C.P.(B.), "The CPSU in Resolutions and Decisions of Congresses, Conferences and Plenums of the Central Committee," Part I, ed. 7, p. 588.



spontaneously. On the other hand, there was a steady and much more rapid, planned growth of the socialist elements, which determined the course of development of the entire national economy.

In industrial production in the first years of NEP, the share of the private economy sector was up to  $\frac{1}{4}$ , and in 1929 it decreased to  $\frac{1}{10}$ . If in 1921/22 the share of private trade accounted for about  $\frac{3}{4}$  of retail turnover, then by 1926 state and cooperative trade, successfully displacing private traders, firmly occupied the position of the state-owned and cooperative trade. predominant position in retail trade turnover.

The revival of trade turnover and the strengthening of the trade bond were the conditions for rapid economic recovery and the rise of socialist industry. Realizing the advantages inherent in socialist industry, the Soviet government achieved that large-scale industry in 1926 reached the level of 1913 in terms of its output. Thanks to the versatile assistance of the Soviet government to the working peasantry, agriculture in 1926 exceeded the level of 1913 in terms of the total size of its output.

With the restoration of industry and agriculture, the transition to the socialist reconstruction of the entire national economy began. With the growth of industry and agriculture, the material and cultural level of the working people increased.

During the period of transition from capitalism to socialism, the Soviet people, under the leadership of the Communist Party, solved the following tasks in a natural sequence: the acquisition of the commanding heights of the national economy by means of socialist nationalisation; the establishment of a trade bond between socialist industry and peasant farming and the supply of consumer goods to the countryside; the socialist industrialisation of the country and the establishment of a productive bond with the countryside by supplying it with advanced machinery; the collectivisation

of agriculture and the creation of the economic basis of socialism in the countryside.

With the establishment of socialist relations of production in industry, broad opportunities opened up for the socialist industrialisation of the country. By providing an advanced technical basis for agriculture, socialist industrialisation created the material basis for the socialist socialisation of peasant farms. The objective necessity of the industrialisation of the country and the collectivisation of agriculture follows from the law of the obligatory correspondence of the relations of production to the character of the productive forces and the basic economic law of socialism. These laws require the establishment of socialist relations of production in the entire national economy, not only in industry, but also in agriculture. Only under this condition do the productive forces have full scope for their development. The socialist industrialisation of the country and the collectivisation of agriculture ensure the victory of socialism in the entire national economy and the systematic rise in production and the level of well-being of the people.

The New Economic Policy was a concrete expression of Lenin's plan for building a socialist economy in the USSR, which was further developed in the writings of Stalin and in the decisions of the Communist Party. The fundamental principles underlying the New Economic Policy pursued in the USSR serve as a guide to action for any country building socialism. However, the concrete forms of economic construction in a particular country must take into account the peculiarities of its development and the situation in which the socialist revolution is taking place. Lenin pointed out that "Marx did not tie his hands - and those of the future leaders of the socialist revolution - as to the forms, methods, and methods of the revolution, perfectly understanding what a mass of new problems would then arise, how the whole situation would change in the course of the revolution, how

often and to what extent it would change in the course of the revolution.”<sup>106</sup>

The construction of a socialist economy in the people's democracies is taking place under more favourable conditions than was the case in the USSR, which was the only country that built socialism. The Soviet Union had to be the first to pave the way for the transition to socialism. At present, each of the people's democracies relies on the enormous assistance of the entire socialist camp headed by the Soviet Union and is in a position to make use of the accumulated experience of building socialism in the USSR.

## BRIEF CONCLUSIONS

*1. For the first time in the history of mankind, the Great October Socialist Revolution paved the way for socialism. The historical inevitability of the proletarian revolution follows from the law of the obligatory correspondence of the relations of production to the character of the productive forces. A transitional period is necessary for the revolutionary transformation of capitalist society into socialist society. The state in the transition period is the dictatorship of the proletariat in the form of Soviet power or in the form of people's democracy. The socialist nationalisation of the main means of production, which were in the hands of the exploiting classes, led to the creation of a socialist system that embraced the commanding heights of the national economy.*

*2. The main forms of social economy in the transition period are: socialism, small-scale commodity production, capitalism; Corresponding to them are the classes of the working class, the peasantry, and the bourgeoisie. The main classes in the transition period are the working class and*

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<sup>106</sup> V. I. Lenin, On the food tax, Works, vol. 32, p. 316.

the peasantry. The supreme principle of the dictatorship of the proletariat is the alliance of the working class and the peasantry under the leadership of the working class, directed against the exploiting classes. The Main Contradiction of the Transition Period - the contradiction between growing socialism and moribund capitalism. The limitation and displacement and then liquidation of capitalist elements are carried out in the process of fierce class struggle.

3. The economic policy of the proletarian dictatorship in the transition period is designed for the victory of the socialist elements over the capitalist elements and for the construction of a socialist economy with the use of commodity production and the market. This policy ensures the economic bond between socialist industry and peasant farming, the socialist industrialisation of the country, and the collectivisation of agriculture.

4. In the transition period, as the socialist system grows and consolidates and the capitalist elements are overcome, the economic laws of capitalism, which express the relations of exploitation, disappear from the scene. The law of value, trade, money, and credit are increasingly being used by proletarian power to the detriment of capitalism and in the interests of socialism. The economic laws of socialism, on which the proletarian state rests, arise and gradually expand their sphere of action.

## CHAPTER XXIII. SOCIALIST INDUSTRIALISATION

### **Large-Scale Industry is the Material Basis of Socialism. The Essence of Socialist Industrialisation.**

Socialism can be built only on the basis of large-scale machine production. Only large-scale machine production, both in the city and in the countryside, is capable of ensuring the rapid growth of labour productivity which is necessary for the victory of the new social system. Lenin wrote: "The only material basis of socialism can be large-scale machine industry, capable of reorganizing agriculture as well."

Capitalism developed large-scale industry and thereby created the necessary material prerequisites for the proletarian revolution and the construction of socialism. But because of its inherent contradictions, capitalism has not been able to reconstruct all branches of the economy on the basis of large-scale machine production. Modern large-scale industry is developed primarily in the principal capitalist countries. Most of the countries of the world, and especially the colonial and dependent countries, do not have a sufficiently developed large-scale industry. In all countries, with the exception of England, there is a large class of peasants who carry on small, individual private farming, based on manual labour and primitive technique. Meanwhile, without the reconstruction of all branches of production on the basis of advanced technology, it is impossible to ensure the victory of socialism in the entire national economy.

A decisive place in large-scale industry is occupied by industries that produce the means of production - metal,

coal, oil, machinery, equipment, building materials, etc. - that is, heavy industry. Therefore, socialist industrialisation means, first of all, the development of a heavy industry with its core - mechanical engineering. "The centre of industrialisation, the basis of which consists in the development of heavy industry (fuel, metal, etc.), in the development, in the end, of the production of means of production, in the development of its own mechanical engineering".<sup>108</sup> Mechanical engineering occupies a special place among all branches of heavy industry. Developed mechanical engineering is a source of re-equipment of all branches of the national economy with modern technology-machines, machine tools, instruments, equipment, tools-a source of technological progress.

In order to build socialism, industrialisation is needed which ensures the growing preponderance of socialist forms of industry over small-scale commodity and capitalist forms. Socialist industrialisation creates the material basis for the development of socialist forms of economy, for the elimination of all capitalist elements, and gives socialist forms of economy the superiority in technology necessary to completely defeat and complete the capitalist system.

The development of heavy industry is the key to the socialist transformation of agriculture on the basis of advanced machine technics. By supplying agriculture with tractors, combines, and other agricultural machinery, socialist industry serves as the basis for the emergence and development of the new productive forces in the countryside that are necessary for the victory of the collective-farm system.

Socialist industrialisation results in an increase in the size of the working class, its relative importance and its leading role in society, and strengthens the foundations of the

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<sup>108</sup> I. V. Stalin, *On the Economic Situation of the Soviet Union and the Policy of the Party, Works*, vol. 8, p. 120.

dictatorship of the working class and its alliance with the peasantry.

By ensuring the rise of all branches of production and the victory of socialist forms of economy, industrialisation thereby serves as a solid basis for a steady increase in the well-being of the working people and an increase in the level of public consumption.

Socialist industrialisation ensures the technical and *economic independence* and defence of the country in the conditions of capitalist encirclement. The development of heavy industry serves as the material basis for the production of modern weapons necessary for the defence of the country against the aggression of hostile imperialist states.

Consequently, *socialist industrialisation* is the development of large-scale industry, and first of all of heavy industry, which ensures the reconstruction of the entire national economy on the basis of advanced machine technics, the victory of socialist forms of economy, and the technical and economic independence of the country from capitalist encirclement.

The socialist industrialisation of the country was of vital importance for the USSR. Pre-revolutionary Russia, although it had a large industry, was predominantly an agrarian country. In terms of the level of development of industry, especially heavy industry, it lagged far behind that of the principal capitalist countries.

Occupying first place among all countries in the world in terms of territory, and third place in terms of population (after China and India), Tsarist Russia was in fifth place in the world and fourth in Europe in terms of industrial output. In 1913, agricultural products accounted for 57.9% of the total gross output of large-scale industry and agriculture, and industrial products - 42.1%. Heavy industry lagged sharply behind light industry. Many important industries were absent: the production of machine tools, tractors, cars and others. Pre-

revolutionary Russia was equipped with modern instruments of production four times worse than England, five times worse than Germany, ten times worse than America. Economic and technical backwardness made Tsarist Russia dependent on developed capitalist countries. It was forced to import a significant part of equipment and other means of production from abroad. The main branches of the country's heavy industry were controlled by foreign capitalists.

The domination of the capitalists and landlords led to the fact that Russia's semi-colonial dependence on the Western imperialist powers became more and more intense. The country is in direct danger of a complete loss of national independence. The exploiting classes were incapable of destroying the age-old technical and economic backwardness of Russia. Only the working class could solve this historic problem. On the eve of the Great October Revolution, Lenin stressed that it was a matter of life or death for Russia to *catch up and outstrip* the most developed capitalist countries in technical and economic terms. "What the revolution did was that in a few months Russia caught up with the advanced countries in terms of *its political system*."

But this is not enough. War is inexorable, it poses the question with ruthless sharpness: either to perish, or to overtake the advanced countries and outstrip them also *economically*.

To perish or to rush forward at full speed. That is how history puts the question.<sup>109</sup>

The level of productive forces and, in particular, the existence of large-scale concentrated industry in pre-revolutionary Russia were sufficient for the victory of the proletarian revolution and for the establishment of Soviet power, the most advanced political power in the world. However, in order to create the economic basis of socialism,

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<sup>109</sup> V.I. Lenin, *The impending Catastrophe and How to Deal With It*, Works, vol. 25, p. 338.



to remake small-scale backward agriculture and to raise the well-being of the people, it was necessary to eliminate the country's age-old technical and economic backwardness and to create a powerful heavy industry. Lacking developed heavy industry, our country could have become an agrarian appendage to the more developed capitalist countries and could have lost its independence, and with it all the gains of the socialist revolution.

With the victory of the proletarian revolution in Russia, a contradiction arose between the most advanced political power in the world, Soviet power, and the backward technical and economic base inherited from the past. Soviet power could not have long maintained itself on the basis of backward industry. In order to overcome this contradiction, it was necessary to carry out socialist industrialisation.

Thus, the socialist industrialisation of the U.S.S.R. was a historical necessity, conditioned by the most vital and vital interests of the construction of socialism.

The Communist Party and the Soviet state realised this historical necessity and consistently pursued a policy of socialist industrialisation of the country. The XIV Congress of the Communist Party (1925) set the socialist industrialisation of the country as the central task of the party. The resolution of the congress stated: "To carry out economic construction from such an angle so that the USSR from a country importing machinery and equipment is transformed into a country producing machinery and equipment, so that in this way the USSR, in a situation of capitalist encirclement, cannot at all turn into an economic appendage of the capitalist world economy, but was an independent economic unit, built in a socialist manner."<sup>110</sup>

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<sup>110</sup> Resolution of the XIV Congress of the All-Union Communist Party (Bolsheviks), "CPSU in resolutions and decisions of congresses, conferences and plenums of the Central Committee," part II, ed. 7, p. 75.

## The Pace of Socialist Industrialisation.

The fundamental tasks of the socialist transformation of the country and ensuring its independence required the implementation of industrialisation in the shortest possible time.

*The need* for rapid industrialisation was caused by the external and internal conditions of the development of the Soviet Union, the world's first socialist country.

*The external conditions* of the USSR's development were determined by the presence of a hostile capitalist encirclement. The imperialist countries had a more powerful industrial base and sought to destroy or at least weaken the Soviet state. The question of the rate of development of industry would not have been so acute if the Soviet Union had had industry as developed as the advanced capitalist countries. This question would not have been so acute even if the dictatorship of the proletariat had existed at that time in other, more industrially developed states. But the Soviet Union was a technologically and economically backward country and the only country of the dictatorship of the proletariat. In view of this, the establishment of an advanced industrial base had to be carried out at a rapid pace.

*The internal conditions* of the USSR's development also required a rapid pace of industrialisation. As long as the Soviet Union remained a small-peasant country, it maintained a firmer economic basis for capitalism than for socialism. In order to solve the question of "who wins whom," it was necessary, in a historically short period of time, to transform the dispersed private property economy of the peasants on the basis of collective labour armed with advanced technology, and to deprive capitalism of its basis in small-scale commodity production. This task could not be solved without the rapid development of heavy industry.

Stalin, justifying the historical necessity of high rates of socialist industrialisation, said: "We are 50 to 100 years

behind the advanced countries. We have to run this distance in ten years. Either we do it or we will be crushed.”<sup>111</sup>

The possibility of high rates of socialist industrialisation was determined by the advantages of the socialist economic system and the peculiarities of the socialist method of industrialisation.

For the period 1929-1937 The average annual growth rate of industrial output in the USSR was about 20%, while in capitalist countries they averaged only 0.3% during this period. The rate of industrial growth in the USSR was many times higher than the rate of industrial growth in the main capitalist countries at the best time of their development. Thus, in the USA, the average annual increase in industrial production was: for 1890-1895—8.2%, for 1895-1900—5.2, for 1900-1905—2.6, for 1905 - 1910. - 3.6%.

## **The Socialist Method of Industrialisation. Sources of Funds for Socialist Industrialisation.**

The industrialisation of the country can be carried out in the shortest historical period only on the basis of *the socialist method of industrialisation*.

In capitalist countries, industrialisation usually begins with the development of light industry. Only after a long time has it become the turn for the development of heavy industry.

For the Soviet Union, this path of industrialisation was unacceptable. It would mean the death of the socialist revolution, the transformation of the U.S.S.R. into a colony of imperialist states. The Communist Party rejected the capitalist path of industrialisation and began the

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<sup>111</sup> J. V. Stalin, On the Tasks of Business Executives, Works, vol. 13, p. 39.

industrialisation of the country with the development of heavy industry.

Capitalist industrialisation is carried out spontaneously as a result of the capitalists' pursuit of profit. Socialist industrialisation was carried out on the basis of the law of planned development of the national economy in the interests of building socialism and satisfying the growing needs of the working people. It could not take place on the basis of the operation of the law of value, since this would mean the priority development of light industry, as it is more profitable. In a planned manner, the Soviet state established such proportions in the distribution of labour and means of production among the various branches as were dictated by the need for the socialist industrialisation of the country and ensured the priority development of heavy industry. In the interests of industrialisation, the system of finance, credit, and foreign trade were used. According to the First and Second Five-Year Plans, the Soviet state directed the bulk of capital investment not to light industry, although it was more profitable, but to heavy industry enterprises, the construction of which was of decisive importance for the victory of socialism.

Capitalist industrialisation leads to the intensification of the exploitation and impoverishment of the working class and the peasantry, to the deepening of the gulf between town and country, and to the enslavement of the colonial peoples. Socialist industrialisation provides a solid basis for the continuous growth of production on the basis of higher technology and leads to the elimination of unemployment and to an increase in the real wages of the workers.

Socialist industrialisation is the basis for the development of agriculture, it leads to an increase in the well-being of the peasantry, to a rapprochement between town and country, and to the strengthening of the alliance between the working class and the peasantry. The Communist Party rejected the hostile attitudes of the Trotskyists, who proposed

industrialisation at the expense of the ruin of the peasantry and thus sought to undermine the alliance of the working class with the peasantry. Socialist industrialisation is a powerful factor in the economic and cultural upsurge of the formerly backward national regions.

From all this follows the direct interest of the workers and peasants in socialist industrialisation. The socialist method of industrialisation steadily expands the domestic market, thereby creating a solid domestic basis for the development of industry.

The industrialisation of such a backward country as Russia was a difficult matter, because the creation of a powerful heavy industry required enormous material and financial costs.

In the industrialisation of the capitalist countries, along with the merciless exploitation of the workers and peasants, the most important role was played by the influx of funds from outside, at the expense of colonial plunder, war indemnities, and enslaving loans and concessions. These methods of mobilizing funds for the construction of industry are incompatible with the principles of the socialist system. The Soviet country had to solve the problem of accumulating funds for the creation of heavy industry exclusively at the expense of domestic sources. In order to accumulate the necessary funds for the construction of new factories, it was necessary to make the most severe savings in the economy. We economize on everything, Lenin wrote. "This must be the case, because we know that without the salvation of heavy industry, without its restoration, we shall not be able to build any industry, and without it we shall perish altogether as an independent country."<sup>112</sup>

In carrying out the difficult task of accumulating funds for industrialisation, the Soviet state made use of the

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<sup>112</sup> V. I. Lenin, *Five Years of the Russian Revolution and Prospects of the World Revolution*. Report to the Fourth Congress of the Communist International, Works, vol. 33, p. 388.

advantages of the socialist economy, which created a real opportunity to solve the problem of accumulation by its own efforts, without enslaving loans from outside, at the expense of internal resources, at the expense of planned socialist accumulation. *Socialist accumulation is the use of a part of the national income for the expansion of socialist production.*

The expropriation of the landlords and capitalists made it possible to use for socialist industrialisation a considerable part of the funds that had previously been appropriated by the exploiters and spent for the purposes of parasitic consumption. The Soviet government exempted the country from annual payments for. Hundreds of millions of rubles in the form of interest on tsarist loans and dividends to foreign capitalists on their capital deposited in Russia. Before the revolution, 800-900 million rubles in gold were spent annually for these purposes.

The Soviet peasantry got rid of rent payments to landlords for land and significant debts to banks. The peasantry, being interested in the development of industry, was able to devote part of its resources to this purpose.

The most important sources of funds for socialist industrialisation were the revenues of nationalised industry, foreign trade, state internal trade, and the banking system. The importance of these sources increased with the growth of socialist industry.

Socialist industry has indisputable advantages over capitalist industry in ensuring the growth of savings. It is the largest and most concentrated industry, united on the scale of the whole country, and it is free from the operation of the law of competition and the anarchy of production. The planned management of industry, the rational use of its resources, the labour activity of the working class, and the rapid development of technology created the conditions for a continuous increase in labour productivity. By virtue of this, socialist industry was able to steadily reduce the *cost of*

*production*, i.e., the monetary costs of enterprises for the production and sale of their products.

One of the important advantages of the socialist economy over the capitalist economy is the concentration of all the monetary savings of state and cooperative enterprises in the country, as well as the free funds of the population, in state credit institutions and their planned use for the development of industry. The Soviet state ensured the reasonable spending of the accumulated funds in order to meet the most important demands of industrialisation. It pursued a policy of the strictest austerity, the all-round simplification and cheapening of the state and cooperative apparatus, the strengthening of economic calculation and financial discipline, and the struggle against excesses in the expenditure of state funds.

All these sources of internal accumulation provided billions of rubles for the industrialisation of the country and made it possible to make large capital investments in industry, especially in heavy industry. In this way, the Soviet government successfully overcame the difficulties associated with the accumulation of funds necessary for the industrialisation of the country.

The application of the socialist method of industrialisation gave an enormous gain in time, ensuring the creation of a first-class socialist industry in the shortest possible time and its high growth rates.

During the first five-year plan (1929 - 1932), capital investments in industry in terms of modern prices amounted to 35.1 billion rubles, of which 30.1 billion rubles were invested in heavy industry. During the second five-year plan (1933 - 1937), capital investments in industry amounted to 82.8 billion rubles, of which 69.1 billion rubles were allocated to heavy industry. During three and a half years of the third five-year plan (1938 - the first half of 1941), 81.6 billion rubles were invested in industry, of which 70.3 billion rubles were invested in heavy industry.

## **The Transformation of the U.S.S.R. from a Backward, Agrarian Country into an Advanced, Industrial Power.**

The victory of socialist industrialisation in the USSR became possible because the Communist Party and the Soviet state relied on the laws of economic development in their policies and skilfully used the advantages of the socialist economy. In accordance with the task of building socialism and satisfying the growing material and cultural needs of the working people, a gigantic industrial construction was launched. The program of industrialisation of the country was concretely embodied in the Five-Year Plans, which armed the Soviet people with a clear perspective and were a powerful force mobilizing the working people to build socialism.

The Communist Party and the Soviet state organised and led the activity and creative initiative of the vast masses. In the years of the First Five-Year Plan, mass *socialist competition* unfolded in the struggle for the fulfilment and overfulfilment of plans. The Second Five-Year Plan was marked by the emergence of the Stakhanovite movement, which was associated with the mastery of modern, first-class technology by the workers of production, broke backward, low technical standards and replaced them with higher ones. The Stakhanov movement was a new stage in socialist emulation. In the emulation of the broad masses of the working class, the great role of the new, socialist relations of production as the main and decisive force for the powerful upsurge of the productive forces was manifested. Socialist emulation has revealed inexhaustible reserves for the growth of labour productivity and the acceleration of the rate of industrialisation. The widespread socialist emulation was the main factor in the early fulfilment of the first and second five-year plans.

In the struggle for the industrialisation of the country, an important role was played by the consistent application of



the economic law of distribution according to labour, which combines the personal material interest of the working people with the interests of social production. Remuneration depending on the quantity and quality of labour stimulated the growth of labour productivity, the improvement of the skills of workers and the improvement of production methods.

One of the main conditions for the high rates of industrialisation, the development of new factories and the use of modern technology to the bottom was the successful solution by the Soviet government within a few years of the most difficult problem of creating numerous industrial *cadres*. The task of training new cadres of the production and technical intelligentsia became acute. The working class had to create its own production and technical intelligentsia capable of serving the interests of the people and actively participating in socialist construction. In the years of the first and second five-year plans, the Soviet state undertook enormous work on the training of personnel through the system of higher educational institutions and technical schools for industry and other branches of the national economy. At the same time, the training of skilled workers was organised on a large scale through factory apprenticeship schools and various courses for the industrial and technical training of new workers. The systematic organisation of the training of cadres by the Soviet state and the interest of the working masses in the rise of social production accelerated and facilitated the assimilation of new technology. On this basis, conditions were created for a rapid increase in labour productivity.

Between 1928 and 1937 the number of workers and employees in large-scale industry increased from 3.8 million to 10.1 million, i.e., 2.7 times. The number of skilled workers working on the latest machinery grew much faster than the total number of the working class. During the period from 1926 to 1939, the number of turners increased by 6.8 times, milling

operators by 13 times, etc. The number of engineers increased by 7.7 times.

The successful implementation of the industrialisation program changed the relationship between industry and agriculture: with a significant increase in agricultural output, industrial production increased much faster, and therefore the share of industrial production in the total output of the country increased sharply. Socialist industry has become the decisive force in the national economy. The ratio between the industries that produce the means of production and the industries that produce consumer goods has changed. The production of means of production took a predominant place in the total mass of industrial production and began to play a leading role in the development of industry and the entire economy of the country.

*In terms of the rate of development and the level of technology*, the industry of the U.S.S.R. has overtaken and surpassed that of the principal capitalist countries. From the point of view of the saturation of industrial production with new technology, the Soviet country became the most advanced in the world. Mechanical engineering in the USSR reached such a level of development that it became possible to produce any machines within the country. The Soviet Union achieved technical and economic independence from the capitalist countries.

During the years of the first two five-year plans, a powerful heavy industry equipped with the latest technology was built in the USSR. In 1937, the fixed production assets of the entire industry (industrial buildings and structures, machinery and equipment) exceeded the level of 1928 by 5.5 times, and in the branches producing capital goods by more than 7 times. Dozens of new industries were created, which were unknown in pre-revolutionary Russia: the automobile and tractor industries, machine tool building, a number of chemical industries, aircraft construction, engine building, the production of combines, powerful turbines and generators,

high-quality steels, and many others. During the years of the five-year plans, thousands of factories and plants were built and put into operation. Among them are dozens of giants of socialist industry: the Magnitogorsk and Kuznetsk metallurgical combines, the Dnieper hydroelectric power station, the Stalingrad and Kharkov tractor plants, automobile plants in Moscow and Gorky, the Ural and Kramatorsk heavy engineering plants, the ball-bearing plant in Moscow, chemical plants in Stalinogorsk, Solikamsk and Berezniki, and many other enterprises. New enterprises began to play a major role in the total volume of industrial production. As early as 1937, more than 80 per cent of all production came from enterprises newly created or reconstructed during the first two five-year plans.

From 1913 to 1940, the output of large-scale industry in the USSR increased almost 12-fold. By the end of the second five-year plan, the Soviet Union ranked first in Europe and second in the world in terms of industrial output. In terms of railway freight turnover, the USSR ranked second in the world. The share of large-scale industry in the gross output of large-scale industry and agriculture rose from 42.1% in 1913 to 77.4% in 1937. In 1913, the share of means of production in the gross output of all industry was 33.3%, in 1940-more than 60%. In 1913, mechanical engineering accounted for only 6% of the total industrial output; in 1940, it was 30%. In terms of the specific weight of mechanical engineering in industrial products, the Soviet Union ranked first in the world. On the eve of the first five-year plan, the USSR imported about one-third of all cars from abroad. In 1932, less than 13% was imported, and in 1937 - only 0.9%. The Soviet Union not only stopped importing automobiles, tractors, agricultural and other machinery from capitalist countries, but also began exporting them abroad.

The rapid growth of Soviet industry led to the domination of industrial production by large socialist enterprises. In 1924-25 the share of the private sector in the industrial output of the USSR was 20.7 per cent. As a result of the implementation of the Second Five-Year Plan, private

industry was finally liquidated. The socialist system became the only system in the industry of the USSR.

Socialist industrialisation led to an increase in the material and cultural level of the working people. Already in the years of the first five-year plan - at the end of 1930 - unemployment in the USSR was completely eliminated. The creation of heavy industry served as the basis for the technical reconstruction and powerful development of industries producing consumer goods—agriculture, light industry, and food industry. Capital investment in industry producing consumer goods tripled in the Second Five-Year Plan as compared with the First Five-Year Plan.

In the process of socialist industrialisation, fundamental changes took place in the *location of industry*. New first-class industrial bases were established in the eastern regions of the country—in the Urals, Western Siberia, and Kazakhstan. Socialist industrialisation was accompanied by the growth of old cities and the creation of *new ones*. Throughout the country, especially in the east, large cities and industrial centres sprang up and became economic and cultural centres that transformed the entire appearance of the surrounding areas.

As a result of the implementation of the industrialisation program, the Soviet Union was transformed from a backward, agrarian country into a powerful *socialist industrial power*. A solid industrial basis was created for the technical reconstruction of the entire national economy, the strengthening of the defence capability of the USSR, and the steady rise in the well-being of the people. The contradiction between the world's most advanced political power and the backward technical and economic base inherited from the past has been eliminated.

Thus, during the prewar five-year plans, there was a rapid growth of the productive forces of socialist industry. In the 13 pre-war years, the Soviet Union travelled a path that the developed capitalist countries spent about ten times as

much time on. It was a great leap from backwardness to a progress unparalleled in the history of the world. The gigantic development of the productive forces in the U.S.S.R. would not have taken place if the old, capitalist relations of production had not been replaced by new, socialist relations of production.

The victory of industrialisation in the USSR was achieved by the Communist Party and the Soviet state in the struggle to overcome the enormous difficulties associated with the backwardness of the country's economy, the fierce resistance of the capitalist elements being liquidated, and the existence of a hostile capitalist encirclement. The Communist Party defended the course of industrialisation of the country in the struggle against the worst enemies of socialism, the Trotskyites and Bukharinites, who opposed the Party's general line for the industrialisation of the country with the line of transforming the Soviet country into an agrarian appendage to the imperialist countries and tried to turn the USSR to the path of capitalist development.

The socialist industrialisation of the U.S.S.R. was an event of great international significance. The rapid transformation of a previously backward country into a powerful industrial power proved the indisputable advantages of the socialist economic system and strengthened the position of the USSR in the international arena. The experience of the industrialisation of the U.S.S.R. is now being used by the people's democracies that are following the path of building socialism.

The process of industrialisation of each individual country that has embarked on the path of building socialism depends on both internal and external conditions. The Soviet Union, being the first and for a long time the only country to build socialism surrounded by hostile capitalist powers, was forced to create heavy industry in all its main branches in a short historical time, exclusively at the expense of domestic sources. This determined the enormous difficulties of

building socialism in the USSR. Other, more favourable conditions have now developed for the people's democracies, since there is a powerful camp of democracy and socialism headed by the Soviet Union and a wealth of experience in socialist construction has been accumulated. The construction of industry in these countries is carried out with due regard for the peculiarities of each country, including natural conditions, with due regard for the economic feasibility of developing certain industries, bearing in mind all the advantages of a broad division of labour and mutual economic assistance among the countries of the socialist camp.

## **BRIEF CONCLUSIONS**

*1. Large-scale machine industry is the material basis of socialism. The existence of heavy industry is crucial for the construction of socialism. The essence of socialist industrialisation consists in the creation of a powerful heavy industry at the expense of internal sources of accumulation, capable of reorganizing the entire national economy, including agriculture, on the basis of the latest technology, and of ensuring the undivided domination of socialist forms of economy and the technical and economic independence of the country.*

*2. The socialist method of industrialisation, which has decisive advantages over the capitalist method, ensures the creation of large-scale industry in the shortest possible time. Socialist industrialisation is carried out in a planned manner, beginning with the development of heavy industry and being carried out in the interests of the working people. The nationalisation of industry, banks, transport, and foreign trade creates new sources of accumulation unprecedented under capitalism and makes it possible to rapidly mobilize funds for the creation of heavy industry.*

3. *The Soviet state, under the leadership of the Communist Party, successfully carried out the program of industrialisation, which was embodied in the Five-Year Plans, thanks to the fact that it relied on economic laws in its policy and took advantage of the advantages of the socialist economy and the labour upsurge of the working class and all working people. During the years of the prewar five-year plans, a first-class, technically advanced industry was built, which served as the basis for the technical reconstruction of the entire national economy, the strengthening of the country's defence capability, and the growth of the people's well-being. The Soviet Union turned into a powerful industrial power, independent of other countries, producing all the necessary machinery and equipment on its own. The new, socialist relations of production that were established in the country were the decisive force that determined and ensured the rapid development of the productive forces of socialist industry.*

## CHAPTER XXIV. COLLECTIVISATION OF AGRICULTURE

### **The Historical Necessity of Collectivisation of Agriculture. Lenin's Cooperative Plan.**

In order to build socialism, it is necessary not only to industrialize the country, but also to transform agriculture on a socialist basis. Socialism is a system of social economy which unites industry and agriculture based on socialised means of production and collective labour.

The socialist transformation of agriculture is the most difficult task of the socialist revolution after the conquest of power by the working class. In contrast to industry, where the socialist revolution involves large-scale, highly concentrated production, the agriculture of the capitalist countries has not reached such a degree of capitalist socialisation of production. It is numerically dominated by small, fragmented peasant farms. As long as small-scale individual farming remains the predominant form of agricultural production, the basis of the bourgeois economic system in the countryside and the exploitation of the poor peasants and a considerable part of the middle peasants by the rural bourgeoisie will remain. The system of small-scale commodity production is incapable of freeing the peasant masses from poverty and oppression.

The only way to free the working masses of the peasantry from all exploitation, from poverty and ruin is for them to adopt the rails of socialism. Marxism-Leninism rejects as senseless and criminal the expropriation of small and medium-sized producers and the transformation of their means of production into State property, because such a



course would undermine all possibility of the victory of the proletarian revolution and throw the peasantry for a long time into the camp of the enemies of the proletariat. F. Engels wrote: "When we have seized state power, we will not even think of forcibly expropriating the small peasants (whether with or without remuneration), as we will be forced to do with the large landowners. Our task in relation to the small peasants is, first of all, to transform their private production and private ownership into comradeship, but not by force, but by example and by offering public assistance for this purpose."<sup>113</sup>

In his plan for building a socialist society, Lenin was guided by the fact that the working class must build socialism in alliance with the peasantry. An integral part of the general plan for the construction of socialism is Lenin's plan for the transition of the peasants from small-scale, privately owned farming to large-scale, socialist economy through the co-operatives.

*Lenin's co-operative plan* proceeded from the premise that, under the conditions of the dictatorship of the proletariat, co-operatives were the most accessible, comprehensible, and advantageous way for millions of peasants to pass from fragmented individual farms to large production associations—collective farms. The most important economic prerequisite for the production co-operatives of the main mass of the peasantry is the all-round development of large-scale socialist industry, capable of reorganizing agriculture on a modern technical basis. The peasantry must be drawn into the channel of socialist construction by means of the development of the simplest forms of co-operatives in the spheres of marketing, supply, and credit, and by a gradual transition from them to production, collective-farm co-operatives. The co-operatives

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<sup>113</sup> F. Engels, *The Peasant Question in France and Germany*, K. Marx, F. Engels, *Selected Works*, vol. II, 1948, pp. 414-415.

of the peasants must take place with the strictest observance of the principle of voluntariness.

In bourgeois society, where the means of production belong to the exploiters, co-operation is a capitalist form of economy. Under capitalism, the agricultural cooperative is economically dominated by the bourgeoisie, which exploits the masses of the peasantry. Under a social system in which political power is in the hands of the working people themselves and the basic means of production are the property of the proletarian State, co-operation is a socialist form of economy. "The system of civilised co-operatives with public ownership of the means of production, with the class victory of the proletariat over the bourgeoisie - this is the system of socialism."<sup>114</sup>

Relying on Lenin's writings, Stalin advanced and developed a number of new propositions on the question of the socialist transformation of agriculture.

In the multi-structured economy of the transition period, there are, on the one hand, large-scale socialist industry, the basis of which is public ownership of the means of production, and, on the other hand, small-peasant farming, the basis of which is private ownership of the means of production. Large-scale industry is equipped with advanced machinery, while privately owned, small-scale peasant agriculture is based on primitive machinery and manual labour. Large-scale industry is developing at a rapid pace, on the principle of expanded reproduction, while small-peasant farming not only fails to carry out annually expanded reproduction, but is not always able to carry out even simple reproduction. Large-scale industry is centralised on the scale of the entire national economy and is conducted on the basis of a state plan, while small peasant farming is fragmented and subject to the influence of market forces. Large-scale socialist industry *destroys* the capitalist elements, while small peasant farming *gives birth* to them constantly and on

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<sup>114</sup> V. I. Lenin, On cooperation, Works, vol. 33, p. 431.

a mass scale. The socialist state and the building of socialism cannot for a longer or shorter period be based on two *different* foundations: on the basis of the largest and most united socialist industry, and on the basis of the most fragmented and backward small-commodity peasant farming. This would eventually lead to the collapse of the entire national economy.

Thus, in the economy of the transition period from capitalism to socialism, there is inevitably a contradiction between large-scale socialist industry, on the one hand, and small-peasant farming, on the other. This contradiction can be resolved only by transferring small-scale peasant farming to large-scale socialist agriculture.

The development of socialist industry and the growth of the urban population during the transition period in the USSR were accompanied by a rapid increase in demand for agricultural products. But the rate of development of agriculture lagged far behind the rate of development of industry. The main branch of agriculture, grain farming, moved forward especially slowly. Small-peasant farming, which was the main supplier of marketable grain, was semi-consumerist in nature and supplied only a tenth of the gross grain harvest to the market. In spite of the fact that in 1926 the sown area and the gross harvest of grain almost reached the pre-war level, the marketable production of grain was half the level of 1913.

There are two ways of creating large-scale farming in agriculture: capitalist and socialist. *The capitalist* path means the imposition in agriculture of large-scale capitalist farms based on the exploitation of wage labour, which is inevitably accompanied by the impoverishment and ruin of the labouring masses of the peasantry. *The socialist* path means the unification of small peasant farms into large collective farms, armed with advanced technology, freeing the peasants from exploitation, poverty, and poverty, and ensuring a steady rise in their material and cultural level. There is no third way.

The transition from small, individual peasant farming to large-scale socialist farming cannot take place by itself. Under capitalism, the countryside follows the city spontaneously, since capitalist farming in the town and small-peasant farming in the countryside are basically the same form of economy, based on private ownership of the means of production. Under the dictatorship of the working class, the small-peasant countryside cannot spontaneously follow the socialist town. Lenin spoke of the *commodity-capitalist* tendency of the peasantry as opposed to the *socialist tendency of the proletariat*.

The socialist town leads the small-peasant countryside by organising large-scale socialist farms in agriculture. The industrialisation of the country is equipping the countryside with advanced machinery. At the same time, cadres are being created who master the new technique. New productive forces are emerging in agriculture. The new productive forces do not correspond to the old production relations of small peasant farming. This necessitates the creation of new, socialist relations of production in the countryside, which would give scope to the development of the productive forces. Such relations of production can be created only by uniting small individual farms into large collective farms.

Thus, the gradual amalgamation of small peasant farms into producers' co-operatives, armed with advanced technology, is an objective necessity in the period of transition from capitalism to socialism. Without collectivisation, it is impossible to ensure the continuous development of the entire national economy on the basis of higher technology and the constant growth of the people's well-being. The path of collectivisation is the only possible one from the point of view of the tasks of building socialism and satisfying the fundamental, vital interests of the peasantry.

The Communist Party and the Soviet state realised the historical necessity of collectivisation, rejected the capitalist path of agricultural development as disastrous for the cause of socialism, and chose the socialist path. This found its expression in the consistently pursued policy of collectivisation of agriculture. The XV Congress of the All-Union Communist Party of Bolsheviks (1927) decided: "It is necessary to set as a priority task, on the basis of further cooperation of the peasantry, a gradual transition of scattered peasant farms to large-scale production (collective cultivation of the land based on the intensification and mechanisation of agriculture), fully supporting and encouraging sprouts of socialised agricultural labour."<sup>115</sup>

The history of socialist construction in the U.S.S.R. has shown that the path of production cooperatives of peasant farms has fully justified itself. In all countries with a more or less numerous class of small and medium producers, after the establishment of the power of the working class, this path of development is the only possible and expedient one for the victory of socialism.

## **Prerequisites for Complete Collectivisation.**

The fulfilment of the grandiose historical task of collectivisation of millions of small peasant farms required appropriate preparation. If the development of capitalism itself has prepared the material conditions for the socialist transformation of industry, in agriculture these conditions must be created to a considerable extent during the transition period.

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<sup>115</sup> Resolution of the XV Congress of the All-Union Communist Party (Bolsheviks), "CPSU in Resolutions and Decisions of Congresses, Conferences and Plenums of the Central Committee," part II, ed. 7, p. 317.

The economic policy of the Communist Party and the Soviet state in the countryside before complete collectivisation was aimed at supporting the poor and middle peasant strata of the countryside by all available means and limiting the exploitative aspirations of the agricultural bourgeoisie. The poor, who made up 35 per cent of the peasant population, were completely exempt from taxes. The socialist state strictly protected the interests of the poor and agricultural workers in its labour legislation. Land management in the poor, and small-scale middle peasant farms were carried out free of charge, at the expense of the state. The state organised machine rolling stations, which provided production assistance primarily to poor farms. The poor and middle peasants were given credit in money, seed and food loans on preferential terms. At the same time, the Communist Party and the Soviet state restricted and ousted the capitalist elements in the countryside by imposing high taxes on the kulaks, restricting the size of the lease and the use of hired labour, and prohibiting the purchase and sale of land.

The fundamental task of building socialism in the countryside was to transfer the bulk of the peasantry from the old, privately owned path to the new, socialist, collective-farm path, under the leadership of the working class, which relied on large-scale socialist industry.

*The nationalisation of the land* in the U.S.S.R. freed the small peasant from his slavish attachment to his piece of land and thereby facilitated the transition from small peasant farming to large-scale collective farming. The nationalisation of the land created favourable conditions for the organisation of large-scale socialist farms in agriculture, which did not have to spend unproductive funds on the purchase of land and the payment of ground rent.

Of decisive importance in the preparation of collectivisation was the comprehensive development of socialist industry, which is the key to the socialist

transformation of agriculture. In the USSR, the first successes of industrialisation made it possible to launch the construction of factories for the production of tractors, combines and other complex agricultural machines. During the first five-year plan alone, USSR agriculture received 154 thousand tractors (translated into 15-horsepower tractors).

Thus, an industrial base was created to supply the village with tractors, combines and other agricultural machinery.

The mass transition of the peasants to the path of collective farms was prepared by the development of agricultural *co-operatives*. The lowest stage of the peasant farms' cooperatives is cooperation in the marketing of agricultural products and the supply of industrial goods to the countryside, as well as in the sphere of credit. Along with special types of agricultural cooperatives - butter-making, flax-growing, beet-cutting, credit and others - *handicraft cooperatives* are of great importance. These forms of co-operation play an important role in the transition from individual peasant farming to large-scale, social farming. They inculcate in broad strata of the peasantry the skills of collective management of economic affairs. At this stage, there is predominantly a *trade bond* between socialist industry and peasant farming, which does not yet change the privately owned foundations of peasant production, but ensures the material interest of the peasants in the development of their economy. The trade bond is carried out through the expansion of state and cooperative trade and the ousting of private capital from the circulation of goods. In this way, the peasants are freed from exploitation by traders and speculators. An important role in this is played by *consumer cooperatives* in the countryside, which trade in personal consumption goods.

In the relations between the state and cooperative associations, the *system of contracting*, which is a form of organised commodity turnover, is of great importance. This trade turnover is carried out on the basis of contracts under

which the state gives orders to cooperative producers for the production of a certain amount of agricultural products, supplies the cooperatives with seeds and instruments of production, stipulates the use of the best methods of farming (row sowing, sowing with varietal seeds, the use of fertilizers, and so on), and buys marketable products from them to supply the population with foodstuffs and industry with raw materials. This system is beneficial to both sides and connects the peasant farms with industry directly, without private intermediaries.

The highest stage of the peasantry's cooperatives is the organisation of collective farms—*kolkhozes*—which signifies the transition to large-scale socialised production. A *kolkhoz* is a voluntary cooperative production association of peasants, the basis of which is social ownership of the means of production and collective labour, which precludes the exploitation of man by man.

An important role in the preparation of mass collectivisation was played by the first collective farms, which were created soon after the socialist revolution. On the example of these collective farms, the peasants are convinced of the advantages of collective forms of farming over individual farming.

Prior to complete collectivisation, the predominant form of collective farms was cooperatives *for joint cultivation* of land (TOZ), in which land use and labour were socialised, but draught animals and agricultural implements remained in the private ownership of the peasant. With the development of mass collectivisation, the TOZ turned out to be a stage that had already been passed. In a number of districts there were *agricultural communes*, in which not only all the means of production were socialised, but also the personal economy of the collective farmer. These communes proved to be unviable, since they arose under conditions of undeveloped technology and a shortage of products. They practiced an



egalitarian distribution of consumer goods. The communes were turned into agricultural artels.

The basic and main form of kolkhoz construction is the agricultural artel. The agricultural artel is a form of collective farming, which is based on the *socialisation* of the main means of production of the peasants and on their collective labour, and the personal ownership of the collective farms by the collective farmers is preserved in the amounts determined by the Statute of the *agricultural artel*.

The leading role of large-scale socialist industry in the collectivisation of agriculture is exercised through machine and tractor stations. *The Machine and Tractor Station (MTS)* is a state socialist enterprise in agriculture, which concentrates tractors, combines, and other complex agricultural machinery and serves kolkhoz production on a contractual basis. The MTS is a form of organisation by the socialist state of the material and production base of large-scale collective agriculture that ensures the fullest combination of the independent activity of the collective-farm masses in the construction of their collective farms under the direction and with the help of the socialist state.

Machine and tractor stations are a powerful lever for the socialist reconstruction of agriculture and a means of establishing a productive bond between industry and agriculture. *The bond* of production consists in the fact that large-scale socialist industry supplies agriculture with machinery and other means of production and equips it with new and perfect technology.

An important role in the socialist transformation of agriculture is played by the large state agricultural enterprises, which are organised by the socialist state on part of the former landlords' lands and also on the vacant lands of the state fund. In the USSR, Soviet state farms (state farms) began to be established in the first year after the socialist revolution. A *sovkhos* is a large socialist agricultural enterprise for the production of grain, meat, milk, cotton,

and other agricultural products, in which the means of production and all the products produced belong to the state. State farms are one of the most important sources of food and raw materials at the disposal of the state. The state farms, as models of a highly mechanised and highly marketable socialist economy, gave the peasants the opportunity to convince themselves of the enormous advantages of large-scale socialist farming and helped them with tractors, varietal seeds, and pedigree livestock. They facilitated the turn of the peasant masses to socialism, to the path of collectivisation.

The collective-farm system arose with the financial and organisational support of the working class. The Soviet state spent enormous funds to finance kolkhoz and sovkhoz construction. In the first years of the mass collective-farm movement, the best workers of the Party and tens of thousands of advanced workers were sent to the countryside and rendered great assistance to the peasants in organizing collective farms.

An important role in preparing the peasants for the transition to collectivisation was played by the work carried out by the Communist Party on the political education of the peasant masses.

The turning of the main mass of the peasantry to the path of collectivisation required an irreconcilable class struggle against the kulaks. The resistance of the *kulaks* to the policy of the Soviet government in the countryside intensified especially in 1927-1928, when the Soviet country experienced difficulties in obtaining bread. The kulaks organised sabotage of grain procurements, committed terrorist acts against collective farmers, Party and Soviet workers, and set fire to collective farms and state grain warehouses. The policy of resolute struggle against the kulaks and the defence of the interests of the toiling peasants rallied the poor and middle peasant masses around the Communist Party and the Soviet state.

## Complete Collectivisation and Liquidation of the Kulaks as a Class.

A radical turn of the peasantry towards collective farms was evident in the USSR in the second half of 1929, by which time the economic and political prerequisites for the collectivisation of agriculture had been created. The middle peasant, that is, the bulk of the peasantry, joined the collective farms. Peasants joined collective farms not in separate groups, but in whole villages and districts. In the Soviet countryside, *the process of complete collectivisation began*.

Prior to complete collectivisation, the Communist Party and the Soviet state pursued a policy of *restricting* and ousting the capitalist elements *in the countryside*. The tax policy, the price policy, the restriction of the lease of land and hired labour - all this set certain limits on kulak exploitation and led to the ousting of certain groups of kulaks. But this policy did not destroy the economic foundations of the kulaks, did not entail their liquidation as a class. Such a policy was necessary until the conditions for complete collectivisation were created, until there was a wide network of collective farms and state farms in the countryside that could replace capitalist grain production with socialist production.

In 1926/27, the kulaks produced 617 million poods of grain and sold 126 million poods in non-village exchange, while state and collective farms produced 80 million poods and produced 37.8 million poods of marketable grain. Things changed radically in 1929, when state and collective farms produced at least 400 million poods and produced more than 130 million poods of commercial grain, that is, they blocked the kulak production of commercial grain.

The great turn of the main peasant masses towards socialism marked a radical shift of class forces in the country

in favour of socialism, against capitalism. This made it possible for the Communist Party and the socialist state to pass from the old policy of restricting and ousting the capitalist elements in the countryside to a new policy, to a policy of *liquidating the kulaks as a class* on the basis of complete collectivisation.

The transition to complete collectivisation was carried out in the form of a mass struggle of the peasants against the kulaks. The kulaks offered fierce resistance to collectivisation. The working class, leading the main mass of the peasantry, led them to storm the last capitalist stronghold in the country in order to smash the kulaks in open battle, before the eyes of the entire peasantry, and to convince the masses of the peasants of the weakness of the capitalist elements. With complete collectivisation, the land area in the area of villages and hamlets was transferred to the use of collective farms. But since a considerable part of this land was in the hands of the kulaks, the peasants, organizing collective farms, took away the kulaks' land, cattle, and implements, and dekulakised them. The Soviet government abolished the laws on the lease of land and on the hiring of labour. Thus, the liquidation of the kulaks as a class was a necessary component of complete collectivisation.

Collectivisation was carried out in strict compliance with Lenin's principles of kolkhoz construction: the voluntary entry of peasants into kolkhozes, consideration of the peculiarities of the economy and the level of culture in various regions of the country, and the inadmissibility of skipping over the agricultural artel, as the main form of kolkhoz construction, to the commune.

Complete collectivisation and the liquidation of the kulaks as a class carried out on its basis represented "a profound revolutionary upheaval, a leap from the old qualitative state of society to a new qualitative state, equivalent in its consequences to the revolutionary upheaval

of October 1917”<sup>116</sup> It was a revolution which abolished the old, bourgeois individual-peasant economic system in the countryside and created a new, socialist collective-farm system. The peculiarity of this revolution lay in the fact that it was carried out *from above*, on the initiative of the state power, with direct support from *below*, on the part of the vast masses of peasants who were fighting against kulak bondage and for a free collective-farm life.

This revolution solved a number of fundamental problems of socialist construction.

In the first place, it abolished the most numerous exploiting class in the country, the kulak class. The liquidation of the kulaks as a class on the basis of complete collectivisation was a decisive step in the abolition of the exploiting classes. The problem of “who wins” was solved not only in the city, but also in the countryside in favour of socialism. Within the country, the last sources of the restoration of capitalism were destroyed.

Secondly, it has transferred the most numerous working class in the country, the peasant class, from the path of individual farming, which gives rise to capitalism, to the path of social, collective-farm, socialist economy, thereby solving the historical task of the proletarian revolution, which has been most difficult since the conquest of power by the working class.

Thirdly, it provided Soviet power with a socialist basis in the most extensive and vital, but also in the most backward branch of the national economy -- agriculture. Agriculture began to develop on the same basis as industry - on the basis of public ownership of the means of production. In this way one of the deepest contradictions of the transition period -- the contradiction between large-scale socialist industry and small-scale individual peasant farming -- was solved, and the basis for the antagonism between town and country was eliminated.

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<sup>116</sup> “History of the CPSU (B). Short Course”, page 291.

The old, capitalist and petty-bourgeois relations of production in the countryside, which had been a brake on the productive forces, were replaced by new, socialist relations of production. Thanks to this, the productive forces in agriculture received full scope for their development.

### **Agricultural Artel as the Main Form of Collective Farming.**

The experience of collective-farm construction in the U.S.S.R. has shown that, of all the forms of kolkhozes, the agricultural artel is the one that ensures the development of the productive forces of socialist agriculture to the greatest extent. The agricultural artel correctly combines the personal, everyday interests of the kolkhoz workers with the social interests of the kolkhoz. The artel successfully adapts personal, domestic interests to the public interests, thereby facilitating the education of yesterday's individual farmers in the spirit of collectivism. In accordance with the Statute of the agricultural artel, it collects agricultural implements, draught animals, seed stocks, fodder for socialised livestock, farm buildings necessary for the conduct of artel farming, and all enterprises for the processing of products. In the agricultural artel, such important branches of agriculture as grain farming and the production of industrial crops are completely socialised. Socialised animal husbandry is organised on kolkhoz farms. In the developed artels there is large-scale socialised production of potatoes and vegetables, gardening, viticulture, and so forth.

In the agricultural artel, residential buildings, productive cattle in a certain quantity, poultry, outbuildings necessary for the maintenance of cattle remaining in the personal ownership of the peasant, and small agricultural implements necessary for personal subsidiary farming *are not*

*socialised* and remain in the *personal ownership* of the kolkhoz household. In case of necessity, the board of the artel allocates several horses from the socialised draught animals to serve the personal needs of the members of the artel for payment. The kolkhoz workers derive their main income from the kolkhoz social economy, which is the main and decisive one.

According to the Charter of the agricultural artel, each collective farm yard in the grain, cotton, beet, flax, hemp, potato-vegetable, tea and tobacco areas can have in personal ownership a cow, up to 2 heads of young cattle, 1 sow with offspring, or, if the collective farm board finds necessary, 2 sows with offspring, up to 10 sheep and goats together, an unlimited number of poultry and rabbits and up to 20 beehives.

Each kolkhoz household in *agricultural areas with developed animal husbandry* may have in its personal ownership 2-3 cows and, in addition, young animals, from 2 to 3 sows with offspring, from 20 to 25 sheep and goats together, an unlimited number of poultry and rabbits, and up to 20 hives.

Each kolkhoz household in the *areas of non-nomadic and semi-nomadic animal husbandry, where agriculture is of little importance and animal husbandry plays a decisive role* in the economy, may have in personal ownership from 4 to 5 cows and, in addition, young animals, from 30 to 40 sheep and goats together, from 2 to 3 sows with offspring, an unlimited number of poultry and rabbits, up to 20 hives. and also one horse or one koumiss mare, or 2 camels, or 2 donkeys, or 2 mules.

Each kolkhoz household in *the areas of nomadic cattle breeding, where agriculture is of almost no importance, and animal husbandry is an all-encompassing form of farming*, may have in its personal ownership from 8 to 10 cows and, in addition, young animals, 100 to 150 sheep and goats together, an unlimited number of poultry, up to 10 horses, and from 5 to 8 camels.

From the socialised land plots, a household plot of land is allocated for the personal use of each kolkhoz household for subsidiary farming in the amount of  $\frac{1}{4}$  before  $\frac{1}{2}$  hectares,

and in some areas - up to 1 hectare, depending on the characteristics of the districts.

The reorganisation period in agriculture in the USSR ended by the end of the first five-year plan. In 1932, kolkhozes comprised more than 60 per cent of all peasant farms and concentrated more than 75 per cent of all peasant crops. But the kulaks, defeated in open battle, had not yet been finished. By deceiving the collective farms, the kulaks strove to blow up the collective farms from within, by means of various methods of wrecking. The Communist Party and the Soviet state have set as the main task of collective-farm construction the *organisational and economic* strengthening of the collective farms, that is, the strengthening of the Party and state leadership of the collective farms, the purging of the collective farms of kulak elements that have made their way into them, the protection of social socialist property, and the improvement of the organisation and strengthening of the discipline of collective labour.

The victory of the collective-farm system was won in a resolute struggle against the exploiting classes and their agents, the Trotskyites and Bukharinites, who defended the kulaks by all means, fought against the creation of collective farms and state farms, and demanded their dissolution and liquidation. The Communist Party decisively smashed the Trotskyist theory of exploitation and the forcible expropriation of the peasantry through high prices of manufactured goods and excessive taxes, as well as Bukharin's Right opportunist theory of the "peaceful growth of the kulak into socialism" and of "spontaneous growth" in economic construction.



## **Transformation of the U.S.S.R. from a Country of Small-Peasant Farming into a Country of the Largest and Most Mechanised Agriculture in the World.**

By the end of the Second Five-Year Plan, the collectivisation of agriculture was complete. The method of collectivisation proved to be a highly progressive method, since it made it possible to cover the whole country within a few years with large collective farms that were able to apply new techniques, make use of all agronomic achievements, and give the country more marketable products. It paved the way for an increase in the well-being of the peasantry.

In the U.S.S.R., *the world's largest* agriculture has been created and consolidated in the form of an all-encompassing system of collective farms, MTS, and state farms, which represent a new, socialist mode of production in agriculture.

Instead of the 25 million peasant farms that existed in the USSR on the eve of complete collectivisation, by the middle of 1938 there were 242,4 collective farms (not counting fishing and commercial farms). Each kolkhoz accounted for an average of 1,534 hectares of agricultural land, including 485 hectares of cultivated land. In the U.S. in 1940, there were only 1.6 per cent of all farms with land of 405 hectares or more.

The collective-farm system has shown its indisputable advantage over the capitalist system of agriculture and small-peasant farming. "The great significance of the collective farms lies precisely in the fact that they constitute the basic basis for the use of machinery and tractors in agriculture, that they constitute the basic basis for the transformation of the peasant, for the transformation of his

psychology in the spirit of socialism.”<sup>117</sup> During the first two five-year plans, a genuine technical revolution was carried out in agriculture in the USSR, as a result of which a solid material and productive basis for socialism was created in the countryside. Socialist agriculture is not only the largest, but also the *most mechanised* agriculture in the world. Whereas under capitalism the use of machinery in agriculture is inevitably accompanied by the ruin of small peasants, the mechanisation of socialist agriculture on the basis of collective labour facilitates the work of the peasant and leads to an increase in his well-being.

In 1940, the Soviet agricultural sector had 530,000 tractors, 182,000 combine harvesters, and 228,000 trucks. The number of MTS was 158 in 1930, and 7,069 in 1940. The level of mechanisation of agriculture in the USSR reached in 1940 in terms of tractor ploughing: the rise of steam-83%, the rise of cold-71%; tractor sowing of spring and winter crops—52-53%, grain harvesting by combine harvesters—43%. In 1940, the Soviet agricultural sector had 530,000 tractors, 182,000 combine harvesters, and 228,000 trucks. The number of MTS was 158 in 1930, and 7,069 in 1940. The level of mechanisation of agriculture in the USSR reached in 1940 in terms of tractor ploughing: the rise of steam-83%, the rise of cold-71%; tractor sowing of spring and winter crops-52-53%, grain harvesting by combine harvesters-43%.

The kolkhoz system ensured a significant increase in agricultural output and a *high marketability* of agriculture, which is important for supplying the country with food and raw materials. The gross agricultural output of the USSR in 1940 exceeded the pre-revolutionary level (1913) by almost 2 times. In 1938 the marketability of kolkhoz and sovkhoz grain production reached 40 per cent of the gross grain production, as against 26 per cent in 1913. The kolkhozes and sovkhozes

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<sup>117</sup> J. V. Stalin, On Questions of Agrarian Policy in the USSR, Works, vol. 12, p. 165.

have enormous opportunities for a steady rise in production. They do not experience marketing crises, since the systematic increase in the material well-being of the people is accompanied by an ever-increasing demand for agricultural products.

The victory of the collective farm system provided the Soviet peasantry with the necessary conditions for a prosperous and cultural life. The collective farm system destroyed the possibility of stratification of the peasantry, poverty and destitution in the countryside. Tens of millions of poor people, having joined collective farms, turned into wealthy people. Thanks to collective farms, there were no horseless, cowless, or equipment-less peasant farms in the village. The personal income of collective farmers from the public farming of collective farms and from personal subsidiary plots increased 2.7 times in the period from 1932 to 1937 alone.

As a result of the victory of the collective-farm system, the friendly alliance of workers and peasants became still stronger. The collective-farm peasantry became a firm support for Soviet power in the countryside. Now not only the working class, but also the peasantry began to base its existence on social, socialist ownership of the means of production.

The experience of collective-farm construction in the U.S.S.R. greatly facilitates the solution of the problem of the socialist transformation of agriculture in other countries during the transition from capitalism to socialism. At the same time, the peculiarities of the historical development of individual countries in the period of transition from capitalism to socialism determine the peculiarities of the conditions of preparation, forms, and methods of carrying out the collectivisation of agriculture in each country. Thus, in the people's democracies, in contrast to the U.S.S.R., where all land has been nationalised, private peasant ownership of land is preserved for a certain period of time

when peasant farms are cooperative. Related to this are the peculiarities in the forms of organisation and in the activities of producers' cooperatives in the countryside.

However, however significant the peculiarities may be in the conditions, forms, and methods of carrying out the socialist transformation of agriculture in individual countries, the basic principles of Lenin's co-operative plan, which have been tested by the experience of collective-farm construction in the USSR, remain common to all countries carrying out the socialist transformation of agriculture.

## BRIEF CONCLUSIONS

*1. A necessary condition for the building of socialism is the collectivisation of agriculture. The essence of the collectivisation of agriculture consists in the gradual and voluntary amalgamation of peasant farms into production cooperatives. Collectivisation means the transition from small, individual, backward private farming to large-scale socialist farming, armed with advanced machine technics. Collectivisation frees the toiling peasantry from exploitation and poverty and opens up to it the way to a prosperous and cultured life. Collectivisation is in the vital interests of the peasantry and all working people.*

*2. The most important prerequisites for complete collectivisation are: the socialist industrialisation of the country, the development of agricultural co-operatives, the experience of the first collective farms and large state farms in agriculture, which showed the peasants the advantages of large-scale socialist farming, the creation of machine and tractor stations, and the resolute struggle against the kulaks.*

*3. Complete collectivisation and, on its basis, the liquidation of the kulaks as a class, carried out under the leadership of the Communist Party and the Soviet state,*

*represented a profound revolutionary upheaval, a transition from the bourgeois individual-peasant system in the countryside to a new, socialist, collective-farm system. This revolution abolished the most numerous exploiting class, the kulaks, and transferred the largest working class. The peasantry from the capitalist path of development to the socialist path of development created for the Soviet state a solid socialist basis in agriculture.*

*4. As a result of the victory of the collective-farm system, the Soviet Union was transformed from a country of small-peasant farming into the country of the largest and most mechanised agriculture in the world. The productive forces of agriculture were given full scope for their development. The Soviet peasantry has been forever freed from exploitation, poverty and misery have been abolished in the countryside, and conditions have been created for a continuous rise in the material and cultural standard of living of the collective-farm peasantry.*

## CHAPTER XXV. THE VICTORY OF SOCIALISM IN THE U.S.S.R.

### Establishment of the Socialist Mode of Production.

The successes of the socialist industrialisation of the country and the collectivisation of agriculture led to a radical change in the correlation of class forces in the USSR in favour of socialism, to the detriment of capitalism. Until the second half of 1929 the decisive offensive against the capitalist elements was carried out mainly along the line of the city. With the transition to the complete collectivisation of peasant farms and the liquidation of the kulaks as a class, this offensive also embraced the countryside, thus assuming a *general* character. A *full-scale offensive of socialism began along the entire* front. As a result of the turn of the main masses of the peasantry towards socialism, the capitalist system lost its basis in the form of small-scale commodity production and began to sink. In 1930 the socialist sector already held in its hands the levers of the entire national economy. This meant that *the USSR had entered a period of socialism*.

The entry into the period of socialism was not the end of the transition period, since the task of building a socialist society had not yet been fully accomplished. But this was the *last* stage of the transition period. Whereas at the beginning of NEP there was a certain revival of capitalism, now the last stage of NEP has arrived, the stage of the complete liquidation of the capitalist elements in the country.

The offensive of socialism along the entire front took place under conditions of intensification of the class struggle,

in order to overcome enormous difficulties. These were the difficulties associated with the radical reconstruction of industry and agriculture, with the restructuring of the technical basis of the entire national economy. In agriculture, reconstruction was impossible without the simultaneous restructuring of the old economic structure, without the collectivisation of peasant farms, and without uprooting the roots of capitalism in the countryside. The advent of socialism inevitably provoked the desperate resistance of the perishing exploiting classes, which, with the support of the capitalist encirclement, carried out wrecking, sabotage, sabotage, and terror. The difficulties of socialist construction are fundamentally different from those inherent in capitalist economy. The capitalist economy is characterised by crises and unemployment, which cannot be overcome within the framework of capitalism. The difficulties of socialist construction are the difficulties of growth, ascent, and advancement; therefore, they themselves contain the possibility of overcoming them.

As a result of the *First Five-Year Plan*, the *foundation of a socialist economy* was built in the USSR in the form of socialist industry and large-scale collective agriculture, armed with advanced technology. The capitalist elements in industry were eliminated. Collectivisation in the main agricultural areas of the country was largely carried out; The kulaks have been crushed, although they have not yet been finished. The transition to Soviet trade has taken place, to trade without capitalists, small and large; Private trade was completely supplanted by state, cooperative, and kolkhoz trade.

At the beginning of the *Second Five-Year Plan*, the economy of the USSR ceased to be multi-structured. Of the five economic modes that existed in the national economy, three—private capitalism, state capitalism and patriarchal economy—no longer existed; The small-scale commodity system was relegated to secondary positions, and the

socialist system became the undisputed dominant and sole commanding force in the entire national economy. This meant that Soviet power began to be based both in the city and in the countryside on a socialist basis.

In the second five-year plan, the technical reconstruction of the *entire national* economy was completed. The U.S.S.R. became an economically independent country, providing its economy and defence needs with the necessary technical weapons. In all branches of the national economy, numerous cadres have grown up and successfully mastered the new technique.

The main historical task of the second five-year plan was successfully solved - all exploiting classes were finally eliminated, the causes that give rise to the exploitation of man by man and the division of society into exploiters and exploited were completely eliminated. The most difficult task of the socialist revolution has been solved: the collectivization of agriculture has been completed, and the collective farm system has finally become stronger.<sup>118</sup> As a result of the completion of collectivization, the roots of capitalism in the economy have been uprooted. The process of differentiation of the peasantry and the birth of capitalist elements has ceased.

The fundamental contradiction of the transition period - the contradiction between growing socialism and the overthrown, but at first still strong capitalism, which had its basis in small-scale commodity production - was overcome. The question of "who wins" was resolved in favour of socialism. The goal of NEP, calculated for the victory of socialist forms of economy, was achieved. Lenin said that NEP was being introduced seriously and for a long time, but not forever, and that NEP Russia would be socialist Russia. Lenin's scientific foresight was realised. The victory of

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<sup>118</sup> Resolution of the XVIII Congress of the CPSU (b), "The CPSU in Resolutions and Decisions of Congresses, Conferences and Plenums of the Central Committee", part II, ed. 7, p. 879.



socialism meant the end of the transition period, the end of NEP.

In 1936, the share of socialist forms of economy in the total amount of means of production reached 98.7 per cent, including 99.95 per cent in industry and 96.3 per cent in agriculture. From 1923-24 to 1936 the proportion of socialist forms of economy rose from 76.3 per cent to 99.8 per cent in gross industrial output, from 1.5 per cent to 97.7 per cent in gross agricultural output (including the personal subsidiary plots of kolkhoz workers), from 43 per cent to 100 per cent in the retail turnover of commercial enterprises, and from 35 per cent in 1924-25 to 99.1 per cent in 1936 in the national income.

Thus, as a result of the transition period in the USSR, the requirements of the law of obligatory correspondence of production relations to the nature of productive forces were fulfilled. This became possible because in the Soviet Union there was such a social force as the alliance of the working class and the peasantry, which united the overwhelming majority of society. The resistance of the bourgeoisie, whose interests were contrary to this law, was defeated. The working class used the law of the obligatory correspondence of the relations of production to the character of the productive forces in order to overthrow the old, bourgeois relations of production and to create new, socialist relations of production throughout the national economy.

During the years of the transition period, the most progressive of all the modes of production that have existed so far in history, the *socialist mode of production*, was established in the USSR. New, powerful productive forces of Soviet industry and agriculture developed. In this way the material conditions were created for the complete victory of socialist relations of production and for their consolidation in the entire national economy. In turn, the socialist relations of production, which triumphed both in the city and in the countryside, opened up space for the development of the

productive forces and ensured the continuous growth of socialist production. The construction of socialism was the only way that led to the elimination of Russia's age-old technical and economic backwardness, freed the country from foreign bondage and ensured its national independence. In the historically shortest period of time, the USSR became a powerful industrial-collective farm power, taking the first place in the world in terms of the level of technology in industry and agriculture. The working class, the working masses of the USSR, under the leadership of the Communist Party, have built a socialist society and fulfilled the aspirations of many generations of working people.

*Socialism* is a system based on social ownership of the means of production in its two forms: state (nationwide) and cooperative-kolkhoz, a system in which there is no exploitation of man by man, the national economy develops in a planned manner, with a view to satisfying the growing needs of the working people to the fullest extent possible by means of a continuous rise in production, and the principle of distribution according to labour is implemented. The victory of socialism in the USSR represented the most profound revolutionary upheaval in the history of mankind.

## **Changes in the Class Structure of Society.**

The construction of a socialist economy in the USSR led to radical changes in *the class structure of society*. Under socialism there are no exploiting classes. Socialist society consists of two friendly working classes, the working class and the peasantry, and the intelligentsia, which is rooted in these classes.

In pre-revolutionary Russia in 1913, workers and employees made up 16.7% of the population, small commodity producers (peasants, handicraftsmen, artisans) - 65.1,

exploiting classes - 15.9 (including kulaks - 12.3), other population (students, pensioners, army and others) - 2.3%.

In the USSR in 1937, workers and employees made up 34.7% of the population, the collective farm peasantry and cooperative artisans - 55.5, students, pensioners, the army and others - 4.2%. Individual peasants and non-cooperative working handicraftsmen, that is, persons engaged in their labour in small-scale farming, made up only 5.6% of the population. The exploiting classes: the landowners and the bourgeoisie were eliminated during the transition period.

The victory of socialism radically changed the character and position of the working class, the peasantry and the intelligentsia.

*The working class* has ceased to be a class deprived of the means of production, selling its labour power and being exploited by the capitalists. It has been transformed into an entirely new class, unprecedented in history, owning the means of production together with the whole people and freed from exploitation. The working class in the U.S.S.R. bases its existence on state (nationwide) property and on socialist labour. It is the advanced class of society, the leading force of its development. In the U.S.S.R., therefore, the state leadership of society (dictatorship) belongs to the working class.

*The peasantry* was transformed from a class of small, scattered producers, based on private property, individual labour and primitive technics, and exploited by landlords, kulaks, merchants and usurers, into an entirely new class, the like of which history has never known. The peasantry in the USSR has been freed from exploitation; It bases its work and its property on social, co-operative-collective-farm ownership, collective labour and advanced technology. In close alliance with the working class and under its leadership, the peasantry takes an active part in the administration of the Soviet state, which is a socialist state of workers and peasants.

The victory of socialism in the U.S.S.R. has completely put an end to the exploitation of the countryside by the towns, to the ruin of the peasantry by capitalism. Thus, the age-old *antagonism between town and country* was eliminated. The city, which under capitalism was the centre of the exploitation of the countryside, became under socialism the centre of economic, political, and cultural assistance to the countryside. The enormous assistance rendered to the peasantry by the socialist city in the liquidation of the landlords and kulaks, as well as in the systematic supply of tractors and other machinery to the peasantry and collective farms, strengthened the alliance between the working class and the peasantry and transformed it into a lasting friendship.

Thanks to the socialist city, the countryside acquired new and powerful productive forces. The bond between industry and agriculture became stronger and stronger. The antagonism between the interests of town and country has disappeared. Not a trace of the former distrust, let alone hatred of the countryside for the city, remained. Both the city and the countryside began to develop on a socialist basis. The interests of the workers and peasants lie on one common line - the strengthening of the socialist system and the building of communism.

A new intelligentsia was born in the U.S.S.R., which included that part of the old intelligentsia which had joined the people after the revolution. In bourgeois society, the intelligentsia is recruited mainly by people from the propertied classes, serves the capitalists, is exploited by them, and helps them to exploit the workers and peasants. Under capitalism, a large part of the intelligentsia is forced to engage in unskilled labour or falls into the ranks of the unemployed. In the U.S.S.R., the overwhelming majority of the intelligentsia come from the working class and the peasantry. The Soviet intelligentsia knows no exploitation, serves the working people, the cause of socialism, and has

every opportunity for the fruitful application of its knowledge. Under socialism, the intelligentsia is an equal member of society, along with the working class and the peasantry, and takes an active part in the administration of the country. In 1937, the cadres of the Soviet intelligentsia numbered 9.6 million people. Including family members, the intelligentsia made up approximately 13-14% of the population of the USSR.

With the victory of socialism in the USSR, the age-old *tension between mental and physical labour* was eliminated. The situation in which a large part of the representatives of intellectual labour helped the ruling classes to exploit manual workers has been put an end to. Under socialism, workers and enterprise managers form a single labour collective, interested in the rise of production. The monopoly of education of the propertied classes has been abolished, science is used in the interests of the whole people, and education is the property of the workers and peasants.

The victory of socialism has created all the necessary conditions for a prosperous and cultured life of the masses. In accordance with the basic economic law of socialism, the *well-being* of the working class, the peasantry, and the intelligentsia rose significantly during the years of the transition period. Unemployment and poverty have disappeared. There were no more poor peasants in the village. The real wages of the workers and office workers have risen, and the real incomes of the peasantry have increased. A *cultural revolution* has taken place in the country. As a result of the first two five-year plans, universal compulsory primary education in the languages of the nationalities of the USSR was implemented. Throughout the country, the network of educational institutions has grown on a huge scale. The number of specialists for various sectors of the economy and culture has increased several times.

The national income of the USSR, which belongs entirely to the working people, increased in 1937 compared to 1913 at constant prices by more than 41/2 times. The production of personal consumption goods by large industry increased in 1937 compared to 1913 by almost 6 times. During the second five-year plan alone, real wages of workers and office workers doubled.

The number of students in primary and secondary schools increased from 7.9 million in 1914 to 29.6 million in 1937, the number of students in higher educational institutions - from 117 thousand to 547.2 thousand, the circulation of books increased from 86.7 million to 673.5 million, the single circulation of newspapers - from 2.7 million to 36,2 million.

In accordance with the principles of the socialist system, the Soviet government put an end to the oppressed position of women. In the U.S.S.R., women actually enjoy equal rights with men in all spheres of economic, cultural, and socio-political life. Women receive equal pay for equal work with men. The victory of socialism introduced millions of women to skilled labour. Over the years of the five-year plans, numerous leading cadres from among women have grown. Women have taken an equal position with men in the intelligentsia. A radical change in the status of women in the countryside took place with the victory of the kolkhozes, which eliminated the previous inequality between women and men that had taken place in individual peasant farming. Women were given the opportunity to stand on an equal footing with men and take an honourable place in the public economy. The victory of socialism freed women from the semi-slave state in which they lived in a number of national outskirts, where feudal and patriarchal survivals existed. The women of the national border regions, on an equal footing with the women of the whole country, became active builders of socialism.

In 1936, women made up 42% of those admitted to universities and 48% of those admitted to technical schools.

The proportion of women among students at industrial universities of the USSR in 1935 was 7 times higher than in Germany, 10 times higher than in England, and 20 times higher than in Italy. The number of women doctors in the USSR in 1940 compared to 1913 increased 40 times. If in 1913 women made up 9.7% of the total number of doctors, then in 1940 about 60% of the total number of doctors were women.

With the victory of socialism and the abolition of the exploitation of man by man, there were no more hostile, antagonistic classes or irreconcilable class contradictions in the USSR. The class relations of socialist society are characterised by the indestructible friendship and comradely cooperation of the working class, the peasantry, and the intelligentsia. The class distinctions between the working class and the peasantry, as well as between these classes and the intelligentsia, are gradually being erased. Whereas capitalist society is torn apart by class and national antagonisms, which make it unstable, socialist society, which knows no class or national antagonisms, is monolithic and stable. The undivided domination of social property and the socialist economic system in the USSR was the economic basis on which such powerful driving forces of social development as the moral and political unity of Soviet society, the friendship of the *peoples of the USSR*, and *Soviet patriotism unfolded*. These social forces have a huge reciprocal effect on the economy, accelerating its development.

The radical changes that took place in the socialist economy and class structure of the USSR were reflected in the sphere of the state superstructure. The Soviet socialist state passed through two main phases in its development during the transition period. The first phase refers to the period from the October Revolution to the liquidation of the exploiting classes. During this period, the state suppressed the overthrown classes and defended the country from attacks from outside. The economic, organisational, cultural and educational function of the state was also carried out,

but this function was not yet fully developed. In the second phase of the development of the Soviet state, it was confronted with the task of organizing a socialist economy throughout the country and eliminating the last remnants of capitalist elements. The function of suppressing the exploiters disappeared, and the protection of socialist property took its place; The function of military defence of the country against capitalist encirclement has been preserved. The creation of a socialist basis ensured the full development of the economic, organisational, cultural and educational work of state bodies.

As a result of these changes, a new *Constitution of the USSR* was adopted in 1936, which enshrined in law the principles and basic foundations of socialism. It is not limited to fixing the formal rights of citizens, but shifts the centre of gravity to the real provision of these rights. Thus, the Constitution of the USSR does not simply proclaim the right of working people to work, to rest, to material security in old age, in the event of illness and disability, as well as the right to education. The real exercise of these rights is ensured by the socialist system of the national economy, the abolition of unemployment, the eight-hour day, annual leave for workers and office workers with the preservation of wages, social insurance for workers and employees at the expense of the state, the provision of a wide network of sanatoriums and rest homes to the working people, state protection of the interests of mothers and children, universal compulsory primary education, and free seven-year education. state scholarships for students and other material means. Thus, the victory of socialism in the USSR created a solid economic foundation that guaranteed the actual exercise of workers' rights. This is the expression of the genuinely socialist democracy of Soviet society and the Constitution of the USSR.



## **Elimination of Economic Inequality of Nations.**

Socialism, which abolishes all exploitation, also eradicates the causes that give rise to the oppression of nations. The socialist system eliminates the political, economic, and cultural inequality of nations and ensures the economic and cultural upsurge of all peoples without exception. "If private property and capital inevitably divide people, incite national strife and intensify national oppression, then collective ownership and labour just as inevitably bring people together, undermine national strife and abolish national oppression. The existence of capitalism without national oppression is as inconceivable as the existence of socialism without the emancipation of the oppressed nations, without national freedom."<sup>119</sup>

With the establishment of the dictatorship of the proletariat in the USSR, the political inequality of nations and the system of national oppression and colonial exploitation were abolished. Further, the task arose to eliminate the economic inequality of nationalities and to put an end to the economic and cultural backwardness of a number of peoples inherited from the past. This task could be solved only on the basis of socialist construction.

Of the population of the national suburbs of Russia, about 25 million people were at the pre-capitalist stage of development, while 6 million people were pastoral tribes that had not yet switched to agriculture and had not outlived the patriarchal-tribal system. It was necessary to help the peoples of the national borderlands to free themselves from numerous feudal and patriarchal remnants, to eradicate the remnants of colonialist elements, and to enable these peoples to build a socialist economy.

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<sup>119</sup> J. V. Stalin, *On the Immediate Tasks of the Party in the National Question*, Works, vol. 5, p. 19.

As has already been said, the backward countries, having thrown off the yoke of imperialism, can, with the help of the advanced countries of the proletarian dictatorship, gradually pass over to the path of socialist construction, bypassing the stage of capitalist development. In the country of the proletarian dictatorship, the backward peoples are following this non-capitalist path of development with the help of the advanced peoples.

As a result of the all-round assistance of the Russian people and the other peoples of the U.S.S.R., the backward peoples of the national border regions made the greatest leap from patriarchal and feudal forms of economy to socialism, bypassing the path of capitalist development. The construction of socialism in the USSR was carried out with careful consideration of the peculiarities of the economic situation, the historical past, and the way of life and culture of each people.

In the U.S.S.R., the actual inequality of the various nationalities in economic and cultural development, inherited from the bourgeois-landlord system, has been eliminated, the inequality between central Russia, which had gone ahead and the national border regions that had lagged behind in the past. The former national outskirts of tsarist Russia were transformed from colonies and semi-colonies into independent and developed states—the Soviet socialist republics. In the previously backward national republics and regions, large-scale socialist industry was created, the collective-farm system was established, numerous national cadres of the working class, including skilled workers, were trained, and a national intelligentsia grew. The powerful economic upsurge of the national border regions was accompanied by a rapid increase in material well-being and an enormous increase in the cultural level of the working people.

Given the overall high rates of growth of industry in the USSR, industry grew particularly rapidly in the national

republics. In 1940, as compared with 1913, the gross output of large-scale industry in the USSR as a whole increased by almost 12 times, and in the Kazakh SSR by 20 times. in the Georgian SSR - 27 times, in the Kirghiz SSR - 153 times, in the Tajik SSR - 308 times.

Under Soviet rule, 48 nationalities received a written language for the first time. Whereas before the revolution a large majority of the population of the national border regions was illiterate, the socialist revolution led to the fact that already in 1939 the overwhelming majority of the population of the national republics became literate. In 1940, as compared with 1914/15, the number of pupils in primary and secondary schools increased: in the Azerbaijan SSR - 9 times, in the Armenian SSR - 9.4 times, in the Kazakh SSR - 10.9 times, in the Turkmen SSR - 35 times, in the Kirghiz SSR - 47 times, in the Uzbek SSR - 73 times, in the Tajik SSR - 822 times.

The construction of socialism fundamentally changes the nature of nations. As a result of the revolutionary transformation of social relations, the place of bourgeois nations, of which capitalist society is composed, is taken by new, *socialist nations*, which are formed on the basis of the old, bourgeois nations. Whereas capitalism divides nations into classes and groups with opposing interests, socialism unites nations on the basis of public ownership and common interests. Every socialist nation is monolithic, it consists of working people led by the working class.

The victory of socialism consolidated the unity of the economic and political interests of the peoples of the USSR and led to the flowering of their cultures, national in form and socialist in content.

The Soviet Union is the most stable and viable multinational state, based on fraternal cooperation of peoples and representing a model for the solution of the national question.

## **The USSR Enters the Period of Gradual Transition from Socialism to Communism.**

With the victory of socialism, the U.S.S.R. entered a new phase of its development, a period of gradual transition from socialism to communism.

*Communism* is a social system in which there are no classes and class distinctions, all the means of production are the property of the whole people, the level of productive forces ensures an abundance of products, and the guiding principle of social life is the principle “from each according to his ability, to each according to his needs.”

Socialism and communism are two phases of the same communist socio-economic formation. Socialism is the lower phase of *the* communist formation, and communism is the more mature, *higher* phase of this formation. The development of socialism leads to the creation of the material and production base of communism and an abundance of products, to an enormous rise in the well-being and level of culture of the people. Thus, the completion of the socialist stage of the development of society means at the same time the realisation of a gradual transition to communism. The entire people—the working class, the peasantry, the intelligentsia—have a vital interest in the creation of the communist system, and all the working people are active builders of communism, which means the greatest material and cultural flowering of society.

An important milestone on the road to communism was the Third Five-Year Plan. During the first three and a half years (1938-June 1941) the tasks of the *Third Five-Year Plan* were successfully carried out. A new, significant growth of industry, especially heavy industry, was achieved, and agriculture was further strengthened and developed.

The peaceful creative work of the Soviet people to build communism was interrupted in 1941 by the treacherous attack on the USSR by fascist Germany and its vassals.

The Great Patriotic War of the Soviet Union (1941-1945) was the most difficult of all wars that took place in the history of Russia. The war confirmed that the USSR possessed the most stable and viable social and state system in the world. The Soviet system proved to be not only the best form of organizing the economic and cultural upsurge of the country during the years of peaceful construction, but also the best form of mobilizing all the forces of the people to repel the enemy during the war.

The powerful economic base for the active defence of the country, which was used during the war, was created during the years of the pre-war five-year plans as a result of the implementation of the policy of industrialisation and collectivisation.

In 1940, the USSR produced: 15 million tons of cast iron, that is, almost 4 times more than in 1913; 18,300 thousand tons of steel, that is, 4 and a half times more than in 1913; 166 million tons of coal, that is, 5 and a half times more than in 1913; 31 million tons of oil, that is, 3 and a half times more than in 1913; 38,300 thousand tons of marketable grain, that is, 17 million tons more than in 1913; 2,700 thousand tons of raw cotton, that is, 3 and a half times more than in 1913.

The socialist system made it possible to create a well-coordinated and rapidly growing military economy in the USSR in the shortest possible time. The economic basis of the Soviet state proved to be incomparably more viable than that of the enemy states. Thanks to the advantages of the planned socialist economy, the Soviet state, under incredibly difficult conditions caused by the temporary loss of a number of important regions of the country, was able to carry out in a timely manner the maximum mobilisation and the most effective use of material, labour, and financial resources.

The Soviet state launched the large-scale construction of new enterprises and ensured the intensive growth of industrial production necessary to ensure victory. Despite the enormous damage inflicted on the country's economy, the high level of socialist accumulation ensured at the end of the war that the volume of capital investment in industry exceeded the pre-war level. Throughout the war, the technology and organisation of industrial production were continuously improved, the quantity and quality of Soviet weapons grew rapidly. In spite of the enemy's temporary occupation of the most important agricultural regions, the kolkhozes and sovkhozes supplied the army and the country with foodstuffs and industry with raw materials for the most part without serious interruptions. The collective-farm system withstood the severe trials of the war and showed its vitality.

The working class, the peasantry, the intelligentsia, including Soviet women and youth, made enormous sacrifices and showed exceptional dedication in their work. The nationwide socialist emulation yielded great results. Due to the growth of labour productivity in the heavy and defence industries, a significant reduction in the cost of production was achieved. This made it possible to dramatically expand the production of weapons.

The moral and political unity of socialist society, the friendship of peoples, and Soviet patriotism aroused the mass heroism of the Soviet people at the front and in the rear. The Communist Party, directing the defence of the country, skilfully directed all the forces of the people to defeat the enemy. The decisive advantages of socialism and the invincible stability of the Soviet rear ensured the Soviet Union's economic and military victory, which it won in the mortal struggle against imperialist Germany, which had the resources of many European countries, and against imperialist Japan. The Soviet people not only defended the freedom and independence of their homeland and their

socialist gains, but also liberated the peoples of Europe from the Hitlerite yoke and saved world civilisation from fascism.

The war caused enormous damage to the national economy of the USSR. Any capitalist state, even the largest one, would inevitably be thrown back decades and turn into a second-rate power. But the USSR, thanks to the advantages of the socialist system, successfully coped with the most difficult tasks of eliminating the consequences of the war. Having ended the war with victory over its enemies, the Soviet Union was able not only to reach the pre-war level of production by its own efforts within a few years, but also to leave it far behind. The plan of the *Fourth Five-Year Plan* (1946-1950) was successfully implemented, the main tasks of which were to restore the affected areas of the country, to restore the pre-war level of industry and agriculture, and then to surpass this level on a significant scale. The Fourth Five-Year Plan for Industry was fulfilled ahead of schedule.

The successful implementation of the Fourth Five-Year Plan marked a major step forward in the economic and cultural development of Soviet society. Ensuring the further movement of the USSR towards communism was the task of the *Fifth Five-Year Plan* (1951-1955) and the subsequent decisions of the Communist Party and the Soviet government on a new upsurge in socialist production and popular consumption.

The victory of socialism in the U.S.S.R. is of the greatest *international significance*. It was a new and powerful blow to the imperialist world system, which further undermined its foundations. With the establishment of socialism, the superiority of the socialist system of the national economy over the capitalist system was manifested with all its force. It took capitalism about a century, and feudalism about two centuries, to prove its superiority over previous modes of production. The socialist economic system has already proved its indisputable superiority over

capitalism during the years of the transition period, i.e., in less than twenty years. In practice, the correctness of Marxism as the revolutionary world outlook of the working class, the correctness of Lenin's theory of socialist revolution, has been proved. This strengthened the faith of the working masses in the strength of the working class and in the final victory of socialism throughout the world.

## **BRIEF CONCLUSIONS**

*1. As a result of the transition period from capitalism to socialism in the USSR, capitalist elements were eliminated in all branches of the economy, the socialist system became the only system of the national economy, and the economic basis of socialist society was created. The victory of socialism was reflected in the Constitution of the USSR, the most democratic constitution in the world.*

*2. Socialism is a system based on social ownership of the means of production in its two forms: state (nationwide) and cooperative-kolkhoz, a system in which there is no exploitation of man by man, the national economy develops systematically for the purpose of satisfying the growing needs of the working people to the fullest extent possible by means of a continuous rise in production, and the principle of distribution according to labour is realised.*

*3. Socialist society consists of two friendly classes, the working class and the peasantry, and the intelligentsia, which is rooted in the working class and the peasantry. The victory of socialism has led to a radical improvement in the material and cultural conditions of the working people, to the elimination of the antagonism between town and country, between mental and physical labour, to the abolition of the inequality of nations and the emergence of new, socialist nations.*



4. *With the victory of socialism, the USSR entered a period of gradual transition from socialism to communism. Thanks to the advantages of the socialist system, the USSR won an economic and military victory in the Great Patriotic War. After the war, the Soviet Union restored the national economy in the shortest possible time, achieved a new and powerful upswing and successfully continues its path to communism. The victory of socialism in the U.S.S.R. had world-historical significance. It has proved in practice the superiority of socialism over capitalism.*

## **B. THE SOCIALIST SYSTEM OF THE NATIONAOL ECONOMY**

## CHAPTER XXVI. THE MATERIAL AND PRODUCTIVE BASIS OF SOCIALISM

### **The Main Features of the Material and Production Base of Socialism.**

As a result of the two greatest transformations—the socialist industrialisation of the country and the collectivisation of agriculture—the material and production base of socialism was created in the USSR. *The material and production basis of socialism is large-scale machine production* in all branches of the national economy, based on higher technology and the labour of workers free from exploitation.

The material and production base of socialism represents a new, higher stage in the development of large-scale machine production in comparison with capitalism and radically differs from the material and production base of capitalist society.

Socialist production is united by social ownership of the means of production and develops systematically in the interests of society as a whole. The growth of socialist production does not encounter obstacles caused by private ownership of the means of production.

Socialist production is the *largest and most concentrated* in the world. The socialist system established in the U.S.S.R. means the undivided domination of large-scale production not only in industry but also in agriculture, whereas under capitalism agriculture is numerically dominated by small farms of individual peasants.

Socialist production is the *most mechanised in the world*. In bourgeois society, machines serve as instruments of exploitation and are introduced into production only when they increase the profit of the capitalist by saving on the

wages of the workers. Under socialism, machinery is used in all cases where it saves labour to society. In socialist society, machines have become a powerful means of facilitating the labour of workers and peasants and of increasing the people's well-being. In the absence of unemployment in a socialist society, machines cannot compete with the working people. For this reason, the working people are very willing to use machinery in production, and the sphere of application of machinery is greatly expanded in comparison with capitalism.

As a result of the abolition of private ownership of the means of production, all the achievements of advanced science and technology under socialism are the property of the whole society. In a socialist economy, the possibility of the artificial retardation of technical progress, which is practiced by the capitalist monopolies for their own selfish ends, is excluded.

Socialist production, which pursues the task of satisfying the needs of society as a whole, requires the continuous development and improvement of technology; Old equipment should be replaced by new equipment, and new equipment should be replaced by the latest one. Hence the need for large-scale capital investments in the national economy. A socialist state, which concentrates in its hands the main means of production and accumulation of the national economy, can make capital investments in all branches of production on a scale inaccessible to capitalism. Technical development under socialism, unlike capitalism, is not restrained by the burden of old technology. Soviet industry and agriculture embody the newest, most advanced that modern science and technology possess. The national economy of the U.S.S.R. has the youngest production and technical apparatus in terms of age.

Thus, socialism ensures the consistent introduction of modern machine technics into all branches of production, including agriculture. Under capitalism, however, agriculture

and even some branches of industry are based mainly on manual labour.

Under socialism the position of the workers in production changes radically. The labour of workers, collective farmers, and intellectuals, freed from exploitation, is the basis for the existence of socialist society. The working people work for themselves, for society, and not for the exploiters, and are therefore deeply interested in the improvement of production on the basis of higher technology and in the best use of available technology. At the same time, socialism leads to a steady and rapid increase in the general cultural level and technical training of workers. All this determines the creative activity of workers in the development of production and tools of labour. The workers, collective farmers, and intelligentsia are making a serious contribution to the cause of technical progress, overcoming the old standards for the use of machinery, and mastering new, ever higher standards.

In contrast to capitalism, socialism ensures the continuous and rapid growth of the productive forces.

## **Socialist Industry.**

*Socialist* industry is a highly concentrated and technically advanced industry united on the basis of social ownership on a national scale. Socialist industry plays a leading role in the national economy; It equips all branches of the national economy with advanced technology. This is achieved by a more rapid growth of industries producing means of production and a high level of development of mechanical engineering. Heavy industry is the basis of the foundations of a socialist economy.

Industry plays a crucial role in ensuring the growth of people's consumption. The light and food industries, armed

with advanced technology, increase the production of consumer goods from year to year.

Socialism has raised the *technical level* of industry to an unprecedented height. From the point of view of the technique of production and the saturation of industrial production with new technology, the industry of the USSR is in the first place in the world.

The main production assets of the USSR industry increased in 1953 by more than 2 times compared to 1940 and 22 times compared to 1913. The gross output of large-scale industry in 1953 increased (in comparable prices) compared to 1913 . 30 times. Compared to the level of 1940, industrial output increased in 1953 by more than 2.5 times, including mechanical engineering output by almost 4 times. The production of certain major branches of heavy industry grew from 1913 to 1953 as follows: coal - from 29 million tons to 320 million tons, oil - from 9 million tons to 52 million tons, steel - from 4.2 million tons to 38 million tons , cement - from 1.5 million tons to 16 million tons, electricity - from 1.9 billion kilowatt-hours to 133 billion kilowatt-hours. The share of mechanical engineering in industrial output was 27% in 1938, and 39% in 1950. In the USA before the war, mechanical engineering accounted for 17.6% of all industrial output, in Germany - 14.6%, in England - 16.2%.

Socialist industry is the most concentrated industry in the world. *The concentration* of production under socialism is carried out in a planned manner and is accompanied by a general rise in production in the interests of society as a whole. Under capitalism, however, concentration is carried out spontaneously, accompanied by the ruin and ruin of small and medium-sized enterprises and the establishment of the domination of monopolies. "We are the country of the most concentrated industry. This means that we can build our industry on the basis of the best technology and thereby

ensure an unprecedented productivity of labour, an unprecedented rate of accumulation”<sup>120</sup>

Under socialism, one of the most important forms of concentration—the combination of production—is widely developed. The combination of production makes it possible to use raw materials and fuel more fully, reduces transportation costs, and leads to an acceleration of *the production process*.

In 1940, in the industrial sector of the USSR, enterprises with an annual production of more than 5 million rubles (at the constant prices of 1926/27) concentrated 71% of all workers and 84% of all output, and in 1950 - 79% of all workers and 92% of all industrial output.

If we compare the data on the concentration of industry in the USSR and the USA (for convenience of comparison, both countries are grouped by the number of workers and employees), it turns out that in 1950 in the manufacturing industry of the USSR, enterprises with the number of workers and employees over a thousand concentrated 62% of all workers and employees, and these enterprises 70% of all industrial output; in the manufacturing industry of the United States, according to the post-war census (1947), enterprises with a number of workers and employees of more than a thousand concentrated 32% of workers and produced 34% of industrial products.

The growth of the concentration of production in the USSR is accompanied by the specialisation of industrial enterprises. *Specialisation* of industrial production is the concentration of an enterprise on the production of a certain type of product, its individual parts and parts, or on the performance of individual operations in the production of a product. Specialisation in the USSR expresses society's planned use of the benefits of the division of labour among

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<sup>120</sup> J. V. Stalin, On the Tasks of Business Executives, Works, vol. 13, pp. 33 - 34.

individual enterprises. It makes it possible to introduce high-performance equipment, standardisation and mass production that provide a significant increase in labour productivity.

Under socialism, the planned *cooperatives* of industrial enterprises, i.e., the organisation of permanent production links between enterprises that jointly participate in the manufacture of an item but are economically independent in relation to each other, are widely developed. Cooperative enterprises are organised primarily within the framework of individual economic regions in order to free transport from long-distance transport. Planned cooperation of enterprises is an important factor in the growth of social labour productivity.

The development of industry and its technical re-equipment are accompanied by the growth of the working class and the rise of the cultural and technical level of the workers. In contrast to capitalism, where the introduction of machinery is usually accompanied by the de-qualification of a significant part of the workers, under socialism the introduction of new technology leads to an increase in the number and proportion of skilled workers, and a decrease in the number and proportion of unskilled manual workers. The number of engineering and technical employees is steadily growing.

In the USSR, a powerful and technically advanced transport system has been created, which, according to Marx's definition, is the fourth branch of material production (after the extractive industry, manufacturing, and agriculture). Transport links together all branches of the national economy and economic regions of the country and plays an important role in the process of production and distribution of material wealth.

The role of transportation is growing under the conditions of a planned socialist economy, which is developing at a high rate and is characterised by



multifaceted ties between individual branches of production. Lenin, describing the role of the railways, pointed out that they represent “one of the most striking manifestations of the most striking connection between town and country, between industry and agriculture, on which socialism is based entirely.”<sup>121</sup>

The concentration of all transport (railway, water, automobile, and air) in the hands of society eliminated the competition of the various modes of transport characteristic of capitalism and opened up the possibility of systematic coordination of their work. In the USSR, *a unified transportation system* has been created on a national scale, systematically combining all modes of transport.

Under socialism, a unified transport system is built on the basis of the latest achievements in transport technology: the widespread introduction of rolling stock of the latest designs and high power, the mechanisation of loading and unloading operations, the improvement of track facilities, and so on.

Fixed transport assets in the USSR increased in 1953 compared to 1913 by 7.7 times. Freight turnover of all types of transport increased in 1953 compared to 1913 by more than 8 times, including freight turnover of railways - 12 times.

## Socialist Agriculture.

The socialisation of the previously fragmented peasant economy and the creation of kolkhozes and sovkhozes opened up the possibility of the widespread use of machinery, the introduction of advanced agricultural

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<sup>121</sup> V. I. Lenin, Final Word on the Report on the Immediate Tasks at the Meeting of the All-Russian Central Executive Committee on April 29, 1918, Works, vol. 27, p. 277.

technology in agriculture, and provided conditions for the rise of agricultural production.

The socialist agriculture of the USSR, conducted on the basis of public ownership, is the largest and most mechanised agriculture in the world. It covers large agricultural enterprises-collective farms, machine and tractor stations and state farms.

The size of collective farms as a result of the consolidation carried out in 1950 - 1951 by decisions of the general meetings of collective farmers greatly increased. In 1954, there were 93,000 collective farms in the country, up from 254,000 in 1950. If before consolidation, on average, one collective farm accounted for 589 hectares of arable land, then after consolidation-1,693 hectares of arable land.

Machine and tractor stations have brought the material and technical base of large-scale machine production under collective farms. The Soviet state created an extensive system of machine and tractor stations in grain, flax, cotton, beet and suburban areas. Special machine-breeding stations have been set up for mechanizing labour-intensive work in animal husbandry, and meadow-reclamation stations for mechanizing land drainage and improvement of meadows and pastures. Electric tractor stations are being created for use in collective farm electricity production. All MTS, depending on the production direction of collective farms, have appropriate agricultural machines and qualified personnel of specialists. In 1954, the USSR had 9,000 MTS and other specialised stations serving collective farms and ensuring a high level of mechanisation of all branches of agricultural production.

In the agriculture of the USSR, large state-owned enterprises-state farms equipped with advanced equipment-play an important role. In 1954, there were about 5 thousand state farms in the country—grain, livestock (meat and dairy, pig, sheep, horse breeding), cotton and others.

Socialist industry has armed agriculture with the most advanced technology. In accordance with the peculiarities of agriculture on the basis of tractor traction, a system of machines has been created to perform basic agricultural work: ploughing, sowing, inter-row cultivation, harvesting.

In 1954, in the agriculture of the USSR there were 1,260 thousand tractors (15-horsepower), 326 thousand grain combines, 370 thousand trucks and many other agricultural machines. In this regard, the level of mechanisation of agricultural work has increased sharply.

The introduction of machines radically changed the structure of agricultural energy resources. In 1916, draft animals accounted for 99.2% and mechanical engines only 0.8% of all agricultural energy resources. In 1940, draft animals accounted for 22%, and mechanical engines - 78%, and by the beginning of 1953, respectively - 9 and 91% (including tractors - 35%, trucks - 29, combine engines - 15, electrical installations - 3, other engines - 9%).

The socialist transformation of agriculture abolished the primitive, centuries-old three-field system of agriculture and created a new, most progressive system of agriculture in the world. The main features of this system are: the widespread introduction of the latest technology and the achievements of advanced agronomic science into agricultural production, the introduction of regular crop rotations with the wide development of sowing fodder, vegetable and industrial crops, the use of artificial and organic fertilizers, irrigation of land in arid areas, drainage of swamps, etc.

The correct conduct of socialist agricultural enterprise excludes both the universalism of small peasant farming, in which a variety of crops are cultivated, mainly for domestic consumption, and the one-sided development of capitalist farms, which usually specialize in a single crop (monoculture). *The specialisation* of socialist agricultural enterprises is expressed in the fact that, in accordance with the natural and economic conditions of individual regions,

the leading branches are singled out in a planned manner, and additional branches develop along with them. Thus, specialisation does not negate but presupposes the development of a *diversified economy* with the right combination of basic and additional industries. One of the important advantages of large-scale socialist agriculture is that it has the greatest potential for the development of a diversified, integrated economy in which land and labour are used productively.

Along with the enlargement and technical re-equipment of agriculture, there is the creation of *new cadres* of agricultural workers who possess modern advanced equipment and agronomic knowledge. In the USSR, for the first time in history, the achievements of agronomic science became the property of the broad masses of the peasantry. The mass introduction of new technology brought to life new professions of mechanised agricultural labour: tractor drivers, combine harvesters, drivers, mechanics, threshing machine operators, flax grinders, cotton pickers and other machines. The kolkhoz system gave birth to hundreds of thousands of qualified managers and organizers of production - chairmen of collective farms, foremen, agronomists and zoo-technicians, farm managers, and others.

Thus, the socialist reconstruction of agriculture has created all the conditions for a systematic increase in the yield of agricultural crops and the productivity of animal husbandry, and for a steady increase in agricultural output.

## **Paths of Technological Progress Under Socialism.**

The main lines of technical progress under socialism are the mechanisation and automation of production, the

electrification of the national economy, and the widespread use of chemistry in production.

*Mechanisation* is the replacement of manual labour by labour carried out with the help of a machine. The consistent mechanisation of labour processes is an economic necessity under socialism. The continuous and rapid growth of socialist production can be assured only through the constant improvement of technics and the all-round mechanisation of labour processes. The mechanisation of labour processes is the *decisive* force without which it is impossible to ensure the high rates and enormous scale of production characteristic of socialism.

In the USSR, the mechanisation of the basic and most labour-intensive processes of production in all branches of the national economy is being consistently carried out. The mechanisation of socialist production takes place through the introduction of new, most advanced machines, mechanisms, and advanced technological processes.

In the USSR industry, mechanisation of production has reached a level unprecedented under capitalism. In the coal industry, which before the revolution was completely dominated by heavy manual labour, mechanisation based on the widespread introduction of cutting machines, electric vehicles and loading mechanisms was already in 1940 for cutting and breaking 94.8%, for delivery-90.4, for rolling-58.4, for loading coal into railway cars - 86.5%. In the post-war period, the mechanisation of notching, breaking and delivery of coal, as well as underground transport and loading of coal into railway cars was fully completed. Great progress has been made in mechanisation and other industries. For example, the construction of hydroelectric power plants uses such outstanding achievements of Soviet technology as new powerful excavators, bulldozers, dredgers and others. Uralmashplant's fourteen-cube walking excavator can take over 2.5 million cubic meters of land per year and replace the physical labour of 7,000 workers.

In 1953, almost all ploughing was mechanised in collective farms; sowing of winter crops is mechanised by 93%, sowing of spring crops by 83%; the sowing of cotton, sugar beet and other industrial crops is almost completely mechanised; 77% of the area of grain crops was harvested by combines. The mechanisation of the main field work in the collective farms is being completed. In the state farms, the main agricultural work is almost completely mechanised. The mechanisation of labour-intensive work in animal husbandry, vegetable growing, horticulture, transportation, loading and unloading of agricultural products, mechanisation of irrigation, and drainage of wetlands is being widely developed.

In the postwar period, Soviet machine-building annually created and mastered the production of 600-700 new types of high-performance machines. If in 1940 the machine-building industry produced 84 items of agricultural machinery and implements, then in 1950 there were already 222 items. High-speed methods of metal cutting, stamping instead of free forging, hardening of parts with high-frequency currents, machine forming of parts and other new methods that give a great economic effect are widely introduced into production.

Under socialism, complex mechanisation is becoming more and more widely developed. Complex mechanisation means the *mechanisation* of all interrelated stages of the production process, both main and auxiliary, and is based on a system of mutually complementary machines. It closes the gaps in the mechanisation of production. As a result of complex mechanisation, *a complete system of machines* is created, covering the entire production process.

So, for example, in the coal industry, the problem of complex mechanisation is solved by using coal combines created by Soviet designers, which combine the operations of cutting, chipping and piling coal on a conveyor and represent a new word in world technology. Mechanisation of the fastening process will complete a comprehensive mechanisation of coal mining.

The highest level of mechanisation is *the automation of production*, that is, the use of automatic machines operating on the basis of self-regulation. Closely related to automation is *telemechanics*, i.e. the control and control of mechanisms at a distance (remote control). In cases where the entire system of machines covering the production process as a whole operates on the basis of self-regulation, there is an automatic system *of machines*. An automatic machine system carries out all the production processes necessary to process the raw material into the finished product without human assistance and only needs to be supervised by the worker.

As early as 1951, 95% of all pig iron was smelted in blast furnaces with automatic blast temperature control, and 87% of all steel production was smelted in open-hearth furnaces equipped with automatic thermal control. In mechanical engineering, the fleet of automatic and semi-automatic metalworking machines, forging and pressing machines, as well as automatic control and measuring equipment is increasing every year. Automatic equipment is widely used in chemical, paper, oil refining and other industries. Automatic machine systems exist in the USSR in the form of automated lines of machine tools and other mechanisms or in the form of separate automated enterprises.

The high level of mechanisation of production under socialism is the basis for the rapid growth of labour productivity and leads to an ever greater convergence of physical labour with mental labour.

The restructuring of all branches of the economy on the basis of large-scale machine production and the consistent mechanisation of production processes are closely connected with *electrification*. Electricity is the technical basis of modern large-scale production.

Socialism ensures the systematic introduction of electricity into all branches of the national economy. Electrification under socialism is characterised: first, by the

centralisation of electricity production and the concentration of capacities in large power plants, the rapid development of high-voltage power lines connecting individual stations into powerful regional or inter-district systems with the prospect of forming a single high-voltage network for the entire country; secondly, the extensive construction of hydroelectric power plants and the systematic increase in their share in total electricity generation, which is the most important means of improving the country's energy balance; Thirdly, the development of district heating in large cities and industrial centres, the use of low-grade and local fuels.

The electrification of industry is changing the face of factories and plants. Instead of a central motor with a complex transmission mechanism, almost all enterprises have introduced an individual electric drive. The electrification of working machines is the energy basis for the integrated mechanisation and automation of production. On the basis of the use of electricity, new industries have emerged, such as electrometallurgy of ferrous and non-ferrous metals, electrochemistry, as well as new methods of metal processing.

Of great importance for the further electrification of the USSR is the construction of hydroelectric power stations on the Volga, Dnieper, Don, and other rivers, which began in the Fifth Five-Year Plan. Some of them will be the largest in the world. The construction of these stations provides a comprehensive solution to the problems of obtaining cheap electricity on a huge scale, the widespread development of the electrification of agriculture and transport, the creation of new electricity-intensive industries, the improvement of navigation, and so on.

At the end of the second five-year plan, the USSR ranked first in the world in terms of industrial electrification. In 1952, the level of electric labour in industry increased by 1.8 times compared to 1940. In the post-war period, there was an increased introduction of electricity in agriculture. At the



beginning of 1954, the capacity of rural power plants increased 5-fold compared to 1940; 30% of all collective farms used electric power. Mechanisation of threshing, as well as a number of production processes in animal husbandry in many collective and state farms is based on the use of electric energy (feed preparation, water supply, milking cows, sheep shearing, etc.). Widespread introduction of electricity in agriculture occurs in areas of large hydroelectric power plants (electric ploughing, etc.).

The progress of modern technology is also reflected in the ever-increasing development of chemistry and the application of methods for chemical processing of substances. Chemical methods ensure the acceleration of production processes, the most complete use of raw materials, and allow you to create new types of raw materials. The chemical industry in the U.S.S.R. has become a powerful factor in the technical development of the entire national economy. Modern chemical production facilities are usually automated, run continuously, in closed equipment with automatic control and regulation, without direct human intervention. Chemicalisation is the most important condition for increasing crop yields. The creation of an abundance of consumer goods is associated with the widespread chemicalisation of agriculture.

The development of the material and production base of socialism is based on the achievements of Soviet advanced science, which successfully solves the major tasks of improving and consistently introducing higher technology into production. Soviet technical thought plays a leading role in solving a number of new technical problems, designing new machines and mechanisms for all branches of production. Soviet designers have priority in creating such machines as, for example, mountain combines, many agricultural machines (potato-planting and potato-harvesting machines, flax harvesters, beet harvesters), new models of modern equipment in the field of energy (direct-flow high-pressure

boiler, the world's largest hydro turbines), powerful mechanisms for construction, new types of metal-cutting machines and others.

### **Place of Socialist Production.**

Under the conditions of socialism, a new distribution of production and a new system of relations between the branches of production and the regions of the country are being formed.

In bourgeois society, the pursuit of profit and competition lead to an uneven and irrational distribution of production. Industry is spontaneously concentrated in a few centres, while vast territories, especially the colonial border regions, are doomed to industrial backwardness. Under socialism, the distribution of production is carried out in a planned manner, in the interests of increasing the productivity of social labour, strengthening the power of the socialist state, and raising the well-being of the working people.

The location of production under socialism is based on the following principles.

First, the all-round approximation of production to the sources of raw materials and the areas of consumption of industrial and agricultural products. In outlining the foundations of the plan for the reorganisation of industry and the general economic upswing of the country, Lenin pointed out:

“This plan should include:

rational placement of industry in Russia from the point of view of the proximity of raw materials and the possibility of minimal loss of labour during the transition from processing raw materials to all successive stages of processing semi-

finished products up to the receipt of the finished product".<sup>122</sup>

Such a location of industry makes it possible to make better use of natural resources and to eliminate irrational transportation, which ensures significant labour savings on the scale of society as a whole and accelerates the growth rate of socialist production.

Secondly, the elimination of the actual economic inequality among the peoples and the rapid development of the economy of the formerly backward national regions, which is the material basis for the strengthening of friendship and cooperation among the peoples.

Thirdly, a planned territorial division of labour between economic regions, combined with the integrated development of the economy within these regions, taking into account the natural conditions of each region and the economic expediency of producing certain industrial goods and agricultural products. The comprehensive development of the economy of the economic regions, taking into account the needs of the region for fuel, building materials, mass products of light industry, and foodstuffs, reduces excessively long-distance and other irrational transportation, and contributes to the mobilisation of local sources of raw materials.

Fourth, the planned distribution of industry throughout the country, ensuring the formation of new cities and industrial centres in the formerly backward agrarian regions, and bringing agriculture closer to industry. This contributes to the elimination of the essential distinction between town and country.

Fifth, the strengthening of the defence capability of the socialist country. The existence of a hostile capitalist encirclement necessitates the particularly rapid development of many branches of industry in the interior of the country.

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<sup>122</sup> V. I. Lenin, *Sketch of a Plan for Scientific and Technical Work*, Works, vol. 27, p. 288.

As a result of the implementation of these principles in the USSR, the unevenness in the distribution of production inherited from capitalism was eliminated.

The approximation of industry to the sources of raw materials was expressed primarily in the accelerated development of the eastern regions of the country and the creation of new fuel and metallurgical bases, new centres of mechanical engineering, and light industry in the Urals, Western Siberia, Central Asia, and Kazakhstan. The newly created industrial centres became economic and cultural centres that transformed the entire appearance of these districts and regions. The creation of a powerful industrial base in the east of the country was one of the most important conditions for the victory of the Soviet Union in the Great Patriotic War.

In 1953, the total volume of industrial output in the regions of the Volga region, the Urals, Siberia, the Far East, Kazakhstan, and Central Asia increased by more than 3.5 times as compared with 1940. The production of consumer goods has increased in these areas. In 1953, the output of the light and food industries increased by 40.1953 times compared to 1937 and by more than 2.2 times compared to 1940.

In the Soviet republics - Uzbek, Kazakh, Kyrgyz, Turkmen and Tajik, with a population of about 17 million people, electricity was generated in 1953 four and a half times more than in the Eastern countries neighbouring the USSR - Turkey, Iran, Afghanistan and Pakistan, combined, with a population of 130 million people.

In terms of technical equipment of agriculture, these republics are superior to many developed countries of capitalist Europe.

The development of socialist industry in a number of economic regions, which previously had no industry, has led to the fact that the old division of regions into industrial and agricultural ones has largely outlived its usefulness. Important changes have taken place in the distribution of

agricultural production in the USSR, indicating that the former one-sided specialisation of agriculture in pre-revolutionary Russia is being successfully eliminated. A powerful grain base was created in the eastern regions of the USSR, a new wheat base was created in the non-black earth zone, agricultural crops were advanced far to the north, and food bases were grown around cities and industrial centres.

The socialist distribution of production is based on the economic regionalisation of the country. *Economic zoning* is the planned division of the entire territory of the country into separate large regions in accordance with their economic and natural characteristics.

The socialist location of production ensures the best use of the country's natural resources and labour resources and is an important condition for increasing the productivity of social labour, accelerating the rate of growth of production, and strengthening the economic power of the USSR.

## **BRIEF CONCLUSIONS**

1. *The material and production base of socialism is large-scale machine production, which embraces all branches of the national economy. Under socialism, the machine serves as a means of saving and facilitating the labour of the workers and peasants and of increasing the well-being of the people. The socialist industry of the U.S.S.R. is the most concentrated in the world, technically the most advanced, and the most centralised on a national scale; it serves as the basis for the development of all sectors of the economy. Socialist Agriculture is the largest and most mechanised in the world; It is a growing source of food and industrial raw materials.*

2. *The material and production base of socialism is based on the latest achievements of modern advanced science and technology. Socialism eliminated the unevenness*

*inherent in capitalism in the use of machine technics between individual branches and processes of production and ensured the consistent introduction of new technics into all branches of the national economy. The main lines of development of technology under socialism are the mechanisation and automation of production, the electrification of the national economy, and the widespread use of chemistry.*

*3. Socialism ensured the planned and rational distribution of production, bringing it closer to the sources. Overcoming the economic backwardness of the national regions, and bringing industry and agriculture closer together. The socialist location of production makes it possible to make expedient use of natural and labour resources, leads to enormous savings in the cost of transporting raw materials and products, and is an important factor in accelerating the growth of socialist production and strengthening the country's defence capability.*

## **CHAPTER XXVII. SOCIAL OWNERSHIP OF THE MEANS OF PRODUCTION AS THE BASIS OF THE RELATIONS OF PRODUCTION OF SOCIALISM**

### **The Socialist System of the National Economy and Socialist Property.**

The economic basis of socialist society consists of the socialist system of the national economy, socialist ownership of the means of production, which were established as a result of the abolition of the capitalist system of economy, the abolition of private ownership of the means of production, and the abolition of the exploitation of man by man.

Exposing the fabrications of the apologists of capitalism about the program of scientific communism as a program for the destruction of property in general, Marx and Engels wrote: 'The distinctive feature of communism is not the abolition of property in general, but the abolition of bourgeois property.'<sup>123</sup> No society is possible without the domination of a historically defined form of ownership. By abolishing private ownership of the means of production, the Proletarian revolution asserts instead socialist ownership of the means of production.

Under socialism, the means of production ceased to be capital, that is, a means of exploitation. In a socialist society, there are no classes that monopolize the means of production, and no classes that are deprived of ownership of the means of production. Under socialism, the means of

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<sup>123</sup> K. Marx and F. Engels, *Manifesto of the Communist Party*, K. Marx, F. Engels, *Selected Works*, vol. I, 1948, p. 21.

production constitute public property. The basic elements of the production process-the labour force and the means of production-are combined here on a new basis. This base is large-scale socialist production both in the city and in the countryside. Since the means of production have ceased to be capital, under socialism there is no division of accumulated labour into constant and variable capital. The entire mass of labour accumulated by society, that is, the entire mass of means of production and means of consumption available to society for the purposes of further production, serves the interests of the people and cannot be a condition of exploitation. 'In bourgeois society, living labour is only a means to increase accumulated labour. In communist society, accumulated labour is only a means of expanding, enriching, and facilitating the workers 'life process.'"<sup>124</sup>

Under socialism, social ownership is unchallenged in all spheres of the national economy. In the USSR in 1950, socialist ownership covered 99.4 per cent of all means of production used in the country. With the assertion of the undivided domination of social property, the false theory of the ideologists of the bourgeoisie about the eternity and inviolability of private capitalist property has been completely debunked.

The transformation of the means of production into social property and the emancipation of the workers of production from all forms of exploitation marked the establishment of a new, socialist system of the national economy.

*The socialist system of the national economy* is fundamentally different from the capitalist system of economy and has decisive advantages over it.

1. Under the conditions of the socialist system of the national economy, the means of production are social property, that is, they belong to the working people in the

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<sup>124</sup> Ibid., p. 22.



person of the socialist state or in the person of collective farms and other cooperative associations, in view of which the products of labour also belong to the working people; Under the capitalist system of economy, the means of production are the private property of the capitalists and landlords, and therefore the products of labour also belong to the capitalists and landlords.

2. The socialist system of the national economy means that the exploitation of man by man has been abolished, and production is carried out in order to satisfy the growing material and cultural needs of the whole society as much as possible; Capitalist production is carried out in order to ensure maximum capitalist profit through the exploitation, ruin, and enslavement of the working people.

3. Socialist production is developing in a planned manner, the steady improvement of the material well-being of the working people and the continuous growth of their purchasing power are an ever-growing stimulus for the expansion of production and a reliable guarantee against crises of overproduction and unemployment; Capitalist production develops spontaneously, the growth of production comes up against the proletarian condition of the masses and the relative reduction of the purchasing power of the working people, whose consumption is limited by capital to an extremely low level, which inevitably entails crises of overproduction and an increase in unemployment and poverty among the masses.

4. Under socialism, every toiler receives material benefits according to the quantity and quality of his labour, and the distribution of the national income is carried out in the interests of systematically improving the well-being of the working people, expanding socialist production in town and country, and increasing social wealth; Under capitalism, the distribution of the national income takes place in the interests of the enrichment of the exploiting classes and their numerous parasitic servants.

5. Under the socialist system, state power is in the hands of the working people of town and country, the workers, peasants, and intelligentsia are active builders of communism, working for themselves, for the benefit of society as a whole; The capitalist system of economy means that power in society belongs to the capitalists, who use this power to maintain an order that is pleasing and beneficial to the propertied classes, while the proletariat and the toiling masses of the peasantry are classes exploited and forced to work for the capitalists and landlords.

Public ownership is the basis of the socialist system, the source of the wealth and power of the Motherland, and the source of a prosperous and cultured life for all working people. It is sacred and inviolable. The Constitution of the U.S.S.R. obliges every citizen of Soviet society to preserve and strengthen public property. Those who encroach on socialist property are enemies of the people and are punished according to the law.

## **Two Forms of Socialist Ownership.**

In the first phase of communism, social socialist ownership exists in two forms: (1) in the form of state ownership and (2) in the form of cooperative-kolkhoz ownership. *State* socialist property is the property of the entire Soviet people in the person of the socialist state of the workers and peasants. *Co-operative-collective-farm* socialist property is the property of individual kolkhozes and co-operative associations.

Two types of socialist farms correspond to the two *forms of socialist ownership*: (1) state enterprises (factories, plants, state farms, MTS, etc.) and (2) cooperative (collective) farms (kolkhozes, trade artels, and consumer cooperative enterprises).

The existence of two forms of socialist property is caused by the historical conditions in which the proletarian revolution and the construction of communism take place. The working class, having conquered state power, finds various forms of private property historically formed: on the one hand, large-scale capitalist property based on the exploitation of the labour of others, and on the other hand, the small-scale private property of peasants, handicraftsmen and artisans, based on their personal labour. In the course of the socialist revolution, large-scale capitalist property is expropriated and passed into the hands of the socialist state. This is how state (people-wide) socialist property arises. At the same time, the program of scientific communism rejects the expropriation of peasants, handicraftsmen and artisans as hostile and criminal. Small and medium-sized commodity producers voluntarily unite in production cooperatives, i.e., collective farms, artels of industrial cooperation, and their ownership of the main means of production is socialised on a cooperative basis. This is how cooperative-kolkhoz property arises.

Thus, the existence of two forms of social ownership is an objective necessity and expresses the peculiarity of the ways in which the working class and the peasantry arrive at socialism and then at communism.

“Both of the two classes existing in the U.S.S.R. are building socialism and are entering into the system of socialist economy. But being in one general system of socialist economy, the working class is bound by its labour to state socialist property (the property of the whole people), and the kolkhoz peasantry to the co-operative-kolkhoz property belonging to individual kolkhozes and kolkhoz-co-operative associations. It is this connection with the various forms of socialist property that determines the difference in the position of these classes in the first place. This also determines a certain difference in the ways of their further development.

What is common in their development is that both these classes are developing towards communism.”<sup>125</sup>

*State property* in the USSR includes land, its subsoil, waters, forests, plants, factories, mines, railway, water, and air transport, banks, means of communication, large agricultural enterprises organised by the state (state farms, machine and tractor stations, and so on), state-owned trade and procurement enterprises, as well as communal enterprises and the basic housing stock in cities and industrial centres.

The territory of the Soviet Union occupies a sixth of the earth's land area - 22.4 million square kilometres. Almost a quarter of this territory - more than 600 million hectares - is *agricultural land*; almost one-third - 700 million hectares - is covered *by forests*.

The USSR is the richest country in the world in terms of mineral resources. The socialist system of economy brought to life riches that remained untouched in tsarist Russia. Of the 92 elements of the Mendeleev system, 20 were mined in tsarist Russia, and more than 80 are mined in the USSR. The USSR ranks first in the world in terms of iron ore, oil, potash salts, apatite, peat and a number of other important minerals, and second in terms of coal reserves.

The national heritage includes 200,000 state-owned industrial enterprises, the entire railway network, water transport enterprises, and state-owned agricultural enterprises: about 5,000 large state farms, 9,000 machine and tractor stations, and thousands of subsidiary agricultural enterprises.

Many thousands of state-owned *commercial enterprises* are in the public domain. The state owns numerous *scientific* and *cultural institutions*.

State socialist property, which arose as a result of the nationalisation of factories, factories, transport, etc., has been enormously increased over the years of socialist

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<sup>125</sup> V. M. Molotov, Constitution of Socialism, Articles and Speeches, 1937, p. 267.

construction by the labour of the Soviet people. Thus, the main production assets of industry increased in 1953 compared to 1913 by 22 times.

State socialist ownership is fundamentally different from state capitalist ownership. When certain enterprises or even entire branches of the economy become the property of the bourgeois state, their social nature does not change. The bourgeois state represents the interests of monopoly capital and is in its hands an apparatus of violence, by means of which the oppression of the working majority by the propertied minority is ensured. That is why the state-capitalist enterprises are enterprises based on the exploitation of the working people by the bourgeois class as a whole, and they oppose the people as an alien and enslaving force.

In a socialist society, the working class holds power in its hands. He owns the state means of production in common with the whole people. The labour power employed in socialist enterprises is not a commodity, since the working class, which owns the means of production, cannot hire itself and sell its labour power to itself. In view of this, in state socialist enterprises there is no possibility of exploitation of man by man.

State ownership is the predominant form of ownership in socialist society: it accounts for about 91 per cent of all production assets in the USSR. Thus, the overwhelming majority of the wealth of the Soviet country, the most important sources of growth in the material well-being and culture of the working people, are the property of the entire people.

*Co-operative-kolkhoz property* in the USSR consists of the social enterprises in the kolkhozes and co-operative organisations, with their living and dead implements, the products produced by the kolkhozes and co-operative organisations, and their public buildings. Kolkhozes and other

cooperative enterprises operate on land that is the property of the whole people. The richest modern equipment, concentrated in machine and tractor stations and used to perform all the main work in the collective farms, is also the property of the whole people.

Cooperative-collective farm property is primarily the property of 93,000 collective farms: collective farm buildings, hundreds of thousands of livestock farms, 287 socialised working cattle, agricultural implements, and a large network of collective farm cultural and domestic institutions (clubs, reading rooms, nurseries, rural laboratories, etc.). In the course of socialist construction, public collective farm property has been enormously multiplied. From 1940 to 1953, the collective farms' undivided funds increased 2.5 times.

The cooperative form of industrial production in a socialist society exists in the form of enterprises of fishing artels. Commercial cooperation is designed to develop the production of mainly consumer goods, using primarily local raw materials for this purpose. The means of production used by enterprises of commercial cooperation and the products produced by them are the property of commercial artels. The commercial cooperation of all systems in the USSR in 1953 consisted of about 16 thousand artels with industrial production. The cooperative form of enterprises in trade exists in the form of consumer societies, uniting mainly the rural population. 23,000 consumer cooperative societies own an extensive network of shops, shops, and warehouses.

The all-round strengthening and development of state and co-operative-collective-farm property is the most important condition for the further growth of the entire national economy and for the gradual transition of Soviet society from socialism to communism.

State and cooperative-kolkhoz forms of ownership, as well as state enterprises and collective farms, *are of the same type* in their social nature. *What* state enterprises and collective farms have in common is that both (1) are based on socialistically socialised means of production and collective labour, (2) exclude the possibility of exploitation

of man by man, (3) run the economy in a planned manner in the interests of satisfying the growing needs of the working people, and (4) implement the socialist principle of distribution according to labour.

At the same time, there are certain differences between the state and the cooperative-kolkhoz forms of ownership, as well as between state enterprises and cooperative (collective) farms.

Firstly. In state-owned enterprises, socialist relations of production prevail in their most mature, fully consistent form. State property is the property of the whole people; In state enterprises, all means of production without exception are socialised. Cooperative-collective farm property is group property, the property of individual collectives or associations of workers (agricultural artel, consumer society, fishing artel); on collective farms (in their artel form) the main means of production of cooperative peasants are socialistically socialised; Some part of the means of production, in accordance with the Charter of the agricultural artel, is not socialised and remains the personal property of the collective farm yard (the collective farmer's personal subsidiary plot).

Secondly. The products of state enterprises are the property of the socialist state and are sold in accordance with the procedure and at prices established by the state organs. The products of kolkhoz production are the property of this kolkhoz. Part of this output is used to fulfil obligations to the state in the form of procurement at fixed state prices and to pay in kind for the work performed on the collective farm by the machine and tractor station. All other products remain at the disposal of the kolkhoz and are used for the creation of the established social kolkhoz funds and for the distribution of workdays among the members of the artel. A certain part of the products of the kolkhozes are sold at purchase prices, which are much higher than the

procurement prices, or in the order of kolkhoz trade at prices prevailing on the market.

*Thirdly.* In state-owned enterprises, which are the property of the people, the share of the social product that goes to the worker's personal consumption is paid in the form of wages. The state fixes in advance a fixed rate of wages per unit of product or working time. The kolkhoz worker, being a member of this artel, which is group property, receives his share of the income from the *workdays* from the fund of his kolkhoz. The size of this share of income depends both on the degree of participation of the kolkhoz worker in social labour, which is expressed in the number of workdays worked out by him, and on the level of labour productivity and the development of the kolkhoz's social economy, which is expressed in the rate of payment for each workday. The better the kolkhoz works as a whole, the higher the yield of agricultural crops and the productivity of animal husbandry in a given kolkhoz, the higher the income of each kolkhoz member. Wages are paid to the worker in cash. The income of the artel is distributed among the kolkhoz workers in cash and in kind (products). While the source of income of the worker is only labour in a socialist enterprise, the main source of income of the collective farmer is his labour in the social economy of the collective farm, and an additional source is labour in the personal subsidiary farm of the collective farm household. The collective farmer sells part of his products, which he received for his work and from his personal subsidiary farm, on the market.

*Fourthly.* The socialist state directly directs the enterprises it owns, managing them through its delegates, the directors of the enterprises, who are appointed and dismissed by the corresponding state organs. The state organs directly plan all the production activities of these enterprises and regulate the basic provisions in the field of the socialist organisation of labour. In the kolkhozes, in



accordance with their cooperative nature, all affairs are managed by the supreme organ of the agricultural artel, the general meeting of kolkhoz workers, and by the board and chairman of the kolkhoz elected by it. The production and financial plans of the artel, the internal regulations, the norms of output and prices, and the procedure for the distribution of income are established by the kolkhoz workers themselves on the basis of the Statute of the agricultural artel, guided by the existing laws, planning tasks, and directives of the socialist state.

The differences between state-owned enterprises and cooperative (collective) farms are non-indigenous differences. These are the differences between the two types of economy within the socialist relations of production. State ownership is the highest form of socialist ownership, and the state form of production is the highest form of socialist production.

Enterprises based entirely on State ownership are consistently socialist-type enterprises. Lenin defined them as enterprises in which “both the means of production belong to the state, and the land on which the enterprise stands, and the entire enterprise as a whole.”<sup>125</sup> In state enterprises, the means of production, the labour of workers and employees, and the products produced by them are socialised on the scale of society as a whole. The state form of production embraces the leading branch of the national economy—socialist industry. Large factories for the production of agricultural products—state farms—are the national property. The state owns land and the main instruments of production—tractors, combine harvesters and other agricultural machines, concentrated in machine and tractor stations. State property, as the highest form of socialist property, plays a leading and determining role in the entire national economy.

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<sup>125</sup> V. I. Lenin, *On cooperation*, Works, vol. 33, p. 433.

## Personal Property Under Socialism.

Social ownership under socialism extends to the means of production and to the products produced. Part of these products further serves as means of production, remaining public property. The other part of the product, consisting of consumer goods, is distributed among the workers in accordance with the quantity and quality of the labour of each of them, and becomes the *personal property of the workers*.

In the Communist Manifesto, Marx and Engels pointed out that communism does not deprive anyone of the possibility of personally appropriating a certain share of the product of social labour. Communism destroys only the miserable character of appropriation inherent in capitalism, in which the worker lives only in order to increase capital, and lives only insofar as the interests of the ruling class demand it.

Describing the foundations of the future socialist society, Engels wrote in Anti-Dühring that here “social ownership extends to land and other means of production, and individual ownership extends to other products, i.e., consumer goods.”<sup>127</sup>

With the abolition of the capitalist mode of production, the economic laws of capitalism, which limit personal property and personal consumption of the masses of the people to a miserable framework, the *minimum* of vital goods necessary for the maintenance and reproduction of labour power, also lose their force.

In contrast to capitalism, where production is placed at the service of the self-serving goals of enriching the exploiters, socialism has subordinated production to the goal of satisfying as much as possible the ever-growing material and cultural needs of the whole of society. Socialism not only does not abolish personal ownership of consumer goods, but

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<sup>127</sup> F. Engels, Anti-Dühring, 1953, p. 123.

creates the only solid guarantee of the ever more complete satisfaction of the personal needs of all members of society.

The right of personal property of the workers of socialist society extends to their labour incomes and savings, to their dwelling houses and subsidiary households, to household and household items, and to articles of personal consumption and comfort.

A special type of personal property under socialism is the *property of the collective-farm* household. In accordance with the Statute of the Agricultural Artel, each kolkhoz household has in its personal ownership a subsidiary farm on a household plot, a dwelling house, productive livestock, poultry and small agricultural implements.

In the epoch of socialism, the source of personal property is only labour. Under the conditions of the undivided domination of socialist relations of production, objects that are in personal ownership cannot be transformed into capital, i.e., used as means of exploitation. The right to personal property, as well as the right to inherit personal property, is protected by the Constitution of the USSR.

Under socialism, private property is inseparably linked with social property as its basis. With the multiplication of social property and the growth of national wealth, ever greater masses of products are used to satisfy the personal needs of the workers of socialist society.

## **The Nature of Socialist Relations of Production.**

The production relations of socialist society are fundamentally different from the production relations of capitalism and other social formations based on private ownership of the means of production.

Socialist relations of production are characterised by: 1) the undivided domination of social ownership of the means of production; (2) the emancipation of the working people from exploitation and the establishment of relations of comradely cooperation and socialist mutual assistance; (3) the distribution of products in the interests of the workers themselves.

Socialist property. In the case of the means of production, it is determined by the character of the mutual relations of people in the process of production, which is quite different from that of capitalism. Whereas private ownership of the means of production inevitably *divides* people, gives rise to relations of domination and subordination, exploitation of some people by others, causes antagonism of interests, class struggle and competition, social ownership of the means of production *unites* people, ensures a genuine community of their interests and comradely cooperation.

The predominance of social ownership of the means of production also determines an entirely different character of the distribution of products under socialism as compared with capitalism.

Since there are no exploiting classes and no exploitation of man by man in socialist society, there is no division of labour into necessary and surplus labour, nor is there a division of the product into necessary and surplus product. Socialist relations of production necessitate an entirely different division of labour and its product than under capitalism. Since, under socialism, the means of production are socially owned, and production itself is designed to satisfy the needs of the whole of society and of each of its members, the labour of the workers of production is here divided into the following two parts: labour for *oneself* and labour *for society*. Accordingly, the product of labour (minus that part of it which is used to replace the expended means of production) is also divided into two parts; a product for

oneself and a product for society. Labour *for oneself* creates a product that is distributed among the workers of production in accordance with the quantity and quality of their labour and is used to cover the personal needs of the worker and his family. Labour for society creates a product that is used for social needs: for the expansion of production, the development of education, public health, the organisation of defence, etc. In a socialist society, where the workers themselves are in power, labour for society is as necessary for them as labour for themselves. The product for society, which is used for the expansion of socialist production, multiplies the material prerequisites for the further growth of the well-being of the working people. The product for society, which is spent on the development of education, health care, social security, and other public needs, also serves the purpose of satisfying the needs of the working people, as well as the product for itself.

The social ownership of the means of production and the products of labour and the distribution of the products of labour in the interests of the working people determine the decisive advantages of the socialist economic system over the capitalist system. All the benefits of large-scale social production, which ensures an enormous increase in the productive power of labour, go to society as a whole and to the working masses, and not to the exploiters, as is the case under capitalism.

The predominance of social ownership of the means of production means that socialist production is free from the contradiction between the social character of production and the private capitalist form of appropriation of the results of production inherent in capitalism. Under socialism, the social character of production corresponds to the social ownership of the means of production. For this reason, in socialist society there is *a complete correspondence* between the relations of production and the productive forces.

Characterizing the socialist system, J. V. Stalin writes:

Here the relations of production are in full accord with the state of the productive forces, for the social character of the process of production is reinforced by the social ownership of the means of production.

That is why socialist production in the U.S.S.R. knows no periodic crises of overproduction and the absurdities connected with them.

That is why the productive forces are developing at an accelerated rate here, since the relations of production corresponding to them give them full scope for such **development**.

In contrast to the relations of production of modern capitalism, which serve as fetters on the development of the productive forces, socialist relations of production ensure the rapid growth of the productive forces. Having arisen and developed on the basis of certain productive forces, socialist relations of production, in turn, are a powerful engine for their further accelerated development.

The complete correspondence of socialist relations of production to the character of the productive forces of society does not mean, however, that there are no contradictions between them. Being the most mobile and revolutionary element of production, even under socialism the productive forces are ahead of the relations of production, and the relations of production are brought into conformity with the state of the productive forces only after some time. The present relations of production in the U.S.S.R. are passing through a period in which, fully corresponding to the growth of the productive forces, they are moving them forward at a rapid rate. But contradictions between them inevitably arise, since the development of the relations of production lags behind and will lag behind the development of the productive forces. Under socialism, however, in contrast to social formations based on exploitation, there is usually no conflict between the relations of production and the productive forces. Socialist

society has the ability to bring the relations of production into line with the nature of the productive forces in a timely manner, since it does not have classes interested in preserving obsolete forms of economy.

## **BRIEF CONCLUSIONS**

*1. In the U.S.S.R., public ownership of the means of production reigns supreme. Under socialism there are two forms of social ownership: state and cooperative-kolkhoz. Accordingly, there are two types of socialist farms: state enterprises and cooperative (collective) farms.*

*2. In a socialist society, state property is the property of the whole people. In the U.S.S.R. it embraces the overwhelming majority of the country's wealth. Co-operative-collective-farm property is the group property of individual kolkhozes, artels of industrial co-operatives, and consumers' societies. State ownership is the highest and most developed form of socialist ownership; It plays a leading and determining role in the entire national economy.*

*3. Under socialism, personal property extends to consumer goods. A special type of personal property is the personal property of the kolkhoz household. The personal property of the working people is growing on the basis of the multiplication of social socialist property.*

*4. The production relations of socialism are characterised by: 1) the undivided domination of social ownership of the means of production; (2) the emancipation of the working people from exploitation, comradely co-operation and socialist mutual assistance between people in the process of production of material wealth; (3) the distribution of the product in the interests of the workers themselves.*

*The labour of the workers in socialist production is divided into two parts: labour for themselves and labour for*

*society. By labour for themselves, workers create a product that is distributed among them according to the quantity and quality of labour, and labour for society creates a product that goes to social needs.*

*Under socialism, the relations of production are in full accord with the nature of the productive forces and are the main and decisive force determining the rapid growth of the productive forces of socialist society.*



## CHAPTER XXVIII. THE BASIC ECONOMIC LAW OF SOCIALISM

### **The Nature of Economic Laws Under Socialism.**

As a result of the replacement of the old, bourgeois relations of production by socialist relations of production, the economic laws of capitalism, which express the relations of exploitation of man by man, lose their force. The laws of surplus value and capitalist profit, the basic economic law of modern capitalism, are disappearing from the scene. The universal law of capitalist accumulation, the law of competition and anarchy of production, and others cease to operate. The categories that express capitalist relations disappear: capital, surplus-value, profit on capital, price of production, wage-labour, value of labour-power, etc.

With the emergence and development of socialist relations of production, on the basis of new economic conditions, new economic laws arose and began to operate: the basic economic law of socialism, the law of planned (proportional) development of the national economy, the law of a steady increase in labour productivity, the law of distribution according to labour, and others.

Insofar as commodity production is preserved under socialism, the law of value operates in a socialist economy and there are categories related to it. What remains of the old categories, however, is mainly form, and their content is radically changed. The old is not abolished entirely, but changes its nature in relation to the new, retaining only the form; The new, on the other hand, does not simply destroy the old, but penetrates the old, changes its nature and functions, and uses the old form to grow and strengthen the new. The new economic conditions that have developed as a result of the victory of socialism are changing the nature of

commodity production and commodity circulation and limiting their sphere of action. Under socialism, commodity production and commodity circulation exist without capitalists and serve the socialist economy. The scope of the law of value is strictly limited. Money, trade, and banks are used as instruments of socialist construction.

The development of the socialist mode of production is also subject to economic laws which are common to all formations, such as the law of the obligatory correspondence of the relations of production to the character of the productive forces.

The economic laws of socialism express the relations of comradely cooperation and mutual aid of workers free from exploitation, while the economic laws of capitalism express the growing exploitation of labour by capital. The operation of the economic laws of socialism leads to an ever greater strengthening of the unity of socialist society, to the flourishing of its economy, to the growth of the well-being of the people, and creates the conditions for a gradual transition to communism, while the operation of the economic laws of bourgeois society causes an ever greater aggravation of class antagonisms, the impoverishment of the masses, the decay of the capitalist system, and ultimately its destruction.

The economic laws of socialism, like the economic laws of any other mode of production, arise and operate independently of the will of men, that is, they have an *objective* character. They cannot be created, formed, transformed, or abolished by the will of men.

Denying the objective character of the economic laws of socialism would mean the abolition of the political economy of socialism as a science, would deprive socialist society of the possibility of foreseeing the course of events in the economic life of the country and of establishing even the most elementary economic leadership. Such a negation is a departure from Marxism to the position of subjective

idealism, it inevitably leads to adventurism in politics, to arbitrariness in the practice of economic management.

The objective character of the economic laws of socialism does not mean that they act as a spontaneous force dominating people, that people are powerless in the face of economic laws. Such a fetishisation of economic laws inevitably leads to the theory of gravity and spontaneity in socialist construction. It is profoundly hostile to Marxism-Leninism. Under socialism, in view of the replacement of private ownership of the means of production by public ownership, the possibilities for society to know and use the laws of economic development are greatly expanded.

If the economic laws of capitalism make their way as a blind, destructive force operating behind the backs of private commodity producers, then with the transition to socialism the anarchy of production disappears, and the economic development of society acquires a planned character. With the abolition of capitalism and the socialisation of the means of production, people become masters of their socio-economic relations. Having come to know objective laws, people apply them quite consciously in the interests of the whole society.

With the transition to socialism, Engels pointed out, “the laws of their own social actions, which have hitherto confronted men as alien laws of nature dominating them, will be applied by men with full knowledge of the matter, and consequently will be subject to their domination. The social existence of men, which hitherto confronted them as imposed from above by nature and history, now becomes their own free affair. The objective, alien forces that have hitherto dominated history come under the control of man himself. And only from this moment will people begin to create their own history quite consciously, only then will the social causes they set in motion have, to a large and ever-

increasing extent, the consequences they desire.”<sup>129</sup> This is freedom as a recognised necessity.

Under capitalism, to the extent that the bourgeoisie is capable of knowing objective economic laws, it uses them in narrow class interests that are in conflict with the interests of the working masses. Under socialism, since the class interests of the proletariat merge with the interests of the overwhelming majority of society, economic laws are applied in the interests of the masses of the people. The interests of the working class, of the working people, fully correspond to the objective course of the progressive development of society, leading to the victory of communism. The working class, all working people, have a vital interest in learning and using the laws of economic development.

Thus, the objective character of the economic laws of socialism consists in the fact that these laws exist independently of the will and consciousness of men; they cannot be abolished or transformed by the will of men; Failure to comply with the requirements of these laws inevitably leads to the disruption of the economic life of the country. But socialist society can learn these laws, master them, and use them in its own interests.

The economic laws of socialism make *it possible* to develop and advance the socialist economy. In order to make *this possibility a reality*, it is necessary to learn how to apply these objective economic laws with full knowledge. Scientific knowledge and the correct application of objective economic laws are the basis of the economic policy of the Communist Party and the socialist state. The more fully socialist society cognizes economic laws, the more accurately it reflects the requirements of these laws in its practical activity, the more successfully it achieves its goals.

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<sup>129</sup> F. Engels, *Anti-Dühring*, 1953, p. 267.

## Essential Features of the Basic Economic Law of Socialism.

Marx and Engels foresaw that under socialism the goal of planned production would be to satisfy the needs of society as a whole and of each of its members. Developing this Marxist position, Lenin wrote in the draft program of the RSDLP in 1902 that the replacement of capitalist society by socialist society would be carried out 'in order to ensure the full welfare and free all-round development of all its members.'<sup>130</sup> Lenin scientifically substantiated the ways of raising the well-being of the working people and a program for the continuous growth of production and the development and application of higher technology under socialism. In so doing, Lenin revealed the basic principles of the basic economic law of socialism, which formed the basis of the policy of the Communist Party and Soviet power.

Basing himself on these propositions, Stalin gave a detailed formulation of the basic economic law of socialism.

The essential features and requirements of the basic economic law of socialism are 'ensuring the maximum satisfaction of the constantly growing material and cultural needs of the entire society through the continuous growth and improvement of socialist production on the basis of higher technology.'<sup>131</sup>

The basic economic law of socialism expresses the *goal* of socialist production and the *means* to achieve it.

The purpose of production is determined by the relations of ownership of the means of production. When the means of production belong to the bourgeoisie, production is inevitably carried on for the enrichment of the owners of capital, and the working people, that is, the overwhelming majority of

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<sup>130</sup> V. I. Lenin, Draft Programme of the Russian Social Democratic Labour Party, Works, vol. 6, p. 12.

<sup>131</sup> J. V. Stalin, Economic Problems of Socialism in the USSR, p. 40.

society, serve only as raw human material for exploitation. Capitalism needs the consumption of the working people only to the extent that it ensures the extraction of profits, so that man and his needs cannot be the goal of production. When the means of production belong to the working people and the exploiting classes are abolished, production is carried out in the interests of the working people, that is, of the entire socialist society. Therefore, the fullest satisfaction of the growing material and cultural needs of people becomes the direct goal of production.

The end to which production is subordinated is inseparably bound up with the means by which it is attained. In accordance with the goal of socialist production - the satisfaction of the growing needs of the working people - the means to achieve this goal can only be the continuous growth and improvement of socialist production on the basis of higher technology.

The satisfaction of the needs of the population depends on the level of the productive forces and on the available resources at the disposal of socialist society. The systematic growth of the needs of the working people necessitates the continuous expansion of production. Without a continuous rise in production, it is impossible to ensure a steady increase in national consumption. In turn, the steady growth of the needs of the working people and their purchasing power is a necessary condition, without which production cannot continuously move forward.

Under socialism, the basic contradiction of capitalism between the social character of production and the private-capitalist form of appropriation has been eliminated. Socialism, therefore, knows no antagonism between production and consumption. The basic economic law of socialism makes it possible to harmoniously combine the growing purchasing power of the population with the simultaneous growth of production. Under capitalism, the miserable level of consumption and purchasing power of the

masses of the people lags behind production all the time, slows it down, and consequently the development of the economy proceeds with interruptions, from crisis to boom and from boom to crisis. Socialist society, on the other hand, thanks to the systematic increase of popular consumption, is guaranteed against crises of overproduction and, consequently, has the possibility of a continuous expansion of production.

In a socialist society, the contradiction between the level of socialist production achieved at any given moment and the rapidly growing needs of the masses is resolved by an increase in production, which leads to an increase in the consumption of the working people and to a new increase in needs, which causes a further expansion of production. Thus, the constant growth of the material and cultural needs of the people under socialism serves as a powerful motive force for the continuous development of production.

A necessary condition for the continuous growth of socialist production is the predominant, i.e., relatively more rapid, development of the branches producing the means of production as compared with the development of the industries producing articles of personal consumption. The priority development of heavy industry and its core, machine building, is the main source of the development of the socialist national economy as a whole and a necessary condition for technical progress. Without the predominant growth of heavy industry, which supplies all branches of the national economy with equipment, machinery, fuel, and energy, it is impossible to systematically expand production in the branches engaged in the production of goods for the population and to ensure the satisfaction of the growing needs of the working people. The predominant development of the production of the means of production under socialism is inseparably linked with the growth of popular consumption.

The continuous growth of socialist production requires its constant improvement, improvement of the methods of production, and a steady increase in the productivity of social labour. This is impossible without a constant increase in the technical level of production, the replacement of obsolete equipment with new ones. Therefore, the development of higher technology is the basis for the continuous growth and improvement of socialist production.

Socialist relations of production have opened up an unprecedented scope for technical progress, whereas in bourgeois society the progress of technology is limited to the maximisation of profit. Whereas capitalism is characterised by unevenness and periodic interruptions in the development of technology, socialism is characterised by the continuous improvement of technique in all branches of production.

The higher the level of technology, the more resources socialist society has at its disposal to meet the growing needs of the working people. The economic system of socialism creates a direct interest of the working people in the growth of production and in the widespread use of advanced technology. In turn, this interest of the people in the development of socialist production serves as a constant factor in the development of the creative initiative of the broad masses aimed at the all-round improvement of production.

Thus, it follows from the aim of socialist production that the development of production has become a vital affair of the working people themselves. This is the greatest source of the continuous upswing of the socialist economy.

The basic economic law plays a decisive role among the economic laws of socialism. It determines all the main aspects and all the main processes of the development of socialist production.



## **The Basic Economic Law of Socialism and the Growth of the Welfare of the Working People.**

The basic economic law of socialism expresses the fundamental advantages of the socialist system over the capitalist system. The operation of the basic economic law of modern capitalism leads to an ever greater retardation of the development of the productive forces, to the growing impoverishment of the working masses, to the enslavement and systematic robbery of the peoples of backward countries and colonies, to the militarisation of the economy and to bloody wars that exterminate millions of people. The operation of the basic economic law of socialism leads to a powerful upsurge in the productive forces, a systematic increase in the material and cultural level of the working people, the development of a peaceful economy, and the strengthening of peaceful cooperation among peoples.

From year to year, Soviet society increases the mass of material goods produced throughout the national economy and ensures the uninterrupted character and high rates of development of socialist production. Soviet industry is steadily moving along an ascending line on the basis of an upsurge in peaceful production.

In 1939, the volume of industrial production compared to the level of 1929 was: in the USSR - 552%, in the USA - 99, in England - 123, in France - 80%. Despite the colossal destruction caused to the Soviet national economy during the war years, the pre-war level of production in the USSR was soon significantly exceeded. As a result of this, the volume of industrial production in the USSR in 1953 increased almost 16 times compared to 1929.

US industrial production stagnated from 1929 to 1939, then it rose due to an increase in military production and the arms race, and in 1953 it was slightly more than twice the

level of 1929. Industrial output in England in 1953 was higher than in 1929 by only 62%, in France - by 5%.

The continuous growth of socialist production constitutes a solid material basis for the constant improvement of the material and cultural standard of living of the Soviet people. In socialist society, the miserable level of consumption of the masses of the people, which is inherent in the bourgeois system, has been overcome. Under socialism, the mass of the product created by labour for itself and used for the personal consumption of the working people invariably increases. There is also an increase in the amount of product created by labour for society and used to expand production and to satisfy the material and cultural needs of the working people.

In accordance with the requirements of the basic economic law of socialism in the USSR, there is a steady increase in the real incomes of the population and a systematic increase in the number of consumer goods purchased by the population at decreasing prices.

The real incomes of the working people of the USSR (that is, incomes calculated taking into account price changes) increased, based on one worker, as follows: for workers in 1940 compared to 1913, taking into account the elimination of unemployment, more than three times; among peasants - approximately three and a half times; in 1952, the incomes of workers and employees increased by 68% compared to 1940, and the incomes of peasants by approximately 72% /o. In 1953, the total income of workers, employees and peasants increased by another 13% compared to 1952.

The volume of production of consumer goods in large-scale industry in the USSR in comparable prices increased compared to 1913: in 1940 - 7.6 times, and in 1953 - 14 times.

A constant factor in the growth of the real incomes of the working people of the USSR is the provision by the Soviet state of free cultural and domestic services, pensions,

allowances, scholarships, privileges, etc., to the population on a large scale.

Socialism means the continuous improvement of the working and living conditions of the masses of the people. It transforms the welfare of the population from a means of profit for the capitalists into a source of raising the standard of living of the people. At a time when capitalism is increasingly deteriorating the living conditions of the working people, forcing them to live in slums, socialism ensures a steady improvement in the living conditions of the population. In the U.S.S.R., thanks to public ownership of the main housing stock in the cities and large-scale state housing construction, urban slums have been eliminated, and uncomfortable dwellings are increasingly being replaced by new, well-maintained houses.

In bourgeois countries, medical care, being a private matter, is mainly in the hands of capitalist entrepreneurs, is provided mainly at a high cost, and is therefore inaccessible to the broad masses of the population. A multilateral state public health system has been established in the USSR to provide the population with all types of medical care free of charge.

Socialism opens up broad opportunities for the cultural growth of the working people, for the development of abilities and talents, of which there is an inexhaustible source among the people. Whereas capitalism permits the education of the working people only within the very narrow limits dictated by the interests of capitalist exploitation, socialism creates the conditions for the ever more complete satisfaction of the rapidly growing needs of the masses in the fields of education, culture, science, and art. "Formerly," said Lenin in 1918, "the whole human mind, all its genius, created only in order to give some all the benefits of technology and culture, and to deprive others of the most necessary things - enlightenment and development. Now all the wonders of technology, all the achievements of culture

will become the property of the whole people, and henceforth the human mind and genius will never be turned into means of violence, into means of exploitation.”<sup>132</sup>

In the USSR, the satisfaction of the growing cultural needs of the people is ensured by extensive measures in the field of cultural construction: free education and advanced training, scholarships for students, the systematic expansion of the network of schools, cultural and educational institutions, libraries, and clubs, and an increase in the production of printed publications.

The number of students in the USSR in all types of education increased from 8 million in 1914 to 49 million in 1940 and 57 million in 1952. At the same time, the number of students in secondary schools (grades 5-10) and in secondary technical schools institutions increased from 0.7 million people in 1914 to 14.8 million in 1940 and 21.4 million people in 1953. The number of students in higher educational institutions increased from 117 thousand in 1914 to 812 thousand in 1940 and up to 1,562 thousand people in 1953. The number of teachers in all educational institutions and educators in children's institutions amounted to more than 2 million people in 1953 and exceeded their number almost 10 times compared to 1914.

Basing themselves on the basic economic law of socialism, the Communist Party and the Soviet state are pursuing a policy that ensures a steady increase in the well-being and cultural level of the masses.

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<sup>132</sup> V. I. Lenin, Closing Speech before the Closing of the III All-Russian Congress of Soviets, Works, vol. 26, p. 436.

## The Economic Role of the Socialist State.

The objective economic laws operating under socialism are known and used by the socialist state in the practice of communist construction. The success of economic policy depends, first of all, on how correctly it reflects in its activities the requirements of economic laws.

The character of the socialist state is determined by the economic basis of socialism. The socialist system of economy, the ownership of the means of production by the working people, corresponds to the political power of the working people headed by the working class. If the policy of the modern bourgeois state expresses the interests of the capitalist monopolies and is aimed at increasing their profits, the policy of the socialist state - the state of the workers and peasants - expresses the fundamental, vital interests of the working people and enjoys the undivided support of the masses of the people.

In accordance with the basic economic law of socialism, the main duty of the socialist state is to ensure the best satisfaction of the ever-growing needs of the masses of the people. "In the sphere of domestic policy, our main concern is to steadily strive for a further improvement in the material well-being of the workers, collective farmers, intellectuals, and all Soviet people. It is the duty of our Party and Government to take unremitting care of the welfare of the people, of the maximum satisfaction of their material and cultural needs"<sup>133</sup>

From the character of the socialist relations of production follows a new economic role of the socialist state, unprecedented in history. The Soviet state is the owner of no less than  $\frac{9}{10}$  of all the means of production of the country. Thanks to the social ownership of the means of production,

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<sup>133</sup> G. M. Malenkov, Speech at a Funeral Meeting on the Day of the Funeral of Joseph Vissarionovich Stalin, 1953, p. 10.

the state was able, relying on the economic laws of socialism and consciously applying them in its activities, to carry out planned management of the national economy and to perform an economic and organisational function. Such a role is inaccessible to the bourgeois state because of the private capitalist ownership of the means of production and the spontaneous nature of the economic development of capitalist society.

The socialist state takes into account the diverse needs of society and, in accordance with these growing needs, steadily develops and improves production. In accordance with real conditions, both domestic and international, it determines at each stage the concrete tasks of economic construction and determines the direction and rate of development of the national economy. It takes into account not only the results of the past, but also the emerging trends of future development, and carries out its economic and organisational function on the basis of scientific foresight. The advanced social science of Marxism-Leninism serves as the theoretical basis for the multifaceted activity of the socialist state.

The economic, organisational, cultural, and educational work of the Soviet state embraces all aspects of the life of socialist society. The Soviet state exercises the planned direction and management of state enterprises in all branches of the economy. The State and its organs appoint and supervise the heads of state-owned enterprises, their associations and entire industries. The state plans the national economy of the country: it distributes material, labour, and financial resources, determines the rate of growth of the productivity of social labour, the volume and structure of production, the country's internal and foreign trade turnover, the prices of goods in state and cooperative trade, the level of wages of workers and employees, and so on. elected bodies of the agricultural artel, taking into account the peculiarities of collective farms as cooperative

enterprises. It does everything in its power to strengthen the alliance between the working class and the peasantry and to expand economic ties between town and country.

The Soviet state guarantees citizens the effective exercise of such vital rights as the right to work, the right to education, and the right to material support in the event of disability and in old age. It is carrying out a system of measures to ensure an abundance of industrial and food products in the country and to dramatically raise the standard of living of the working people. In accordance with this, the state, on the basis of the successes achieved in the development of heavy industry, organizes a steep upswing in agriculture, industry producing goods for the population, and Soviet trade.

The Soviet state directs all branches of culture: public education, the training of qualified personnel, the development of advanced science and art, and the application of scientific and technological achievements in production.

The strength of the Soviet state apparatus lies in its connection with the masses of the people. It follows from the essence of the socialist system that centralised state leadership must be combined with local initiative, with concrete consideration of local peculiarities.

The most important principle of economic management on the part of the state is the unity of economic and political work. "In practice, politics and economy are inseparable. They exist together and act together. And whoever thinks, in our practical work, of separating economy from politics, of intensifying economic work at the cost of belittling political work, or, on the contrary, of intensifying political work at the cost of diminishing economic work, is bound to fall into a dead end."<sup>134</sup>

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<sup>134</sup> J. V. Stalin, *On the Shortcomings of Party Work and Measures to Eliminate Trotskyists and Other Double-Dealers*, 1938, p. 26.

The leading and organizing force of the Soviet state is the Communist Party, which directs the activities of all state organs and social organisations of the working people. The Party issues directives for the drawing up of national economic plans and works out major measures of the national economy that are of vital importance for the whole country. The Party, which is strong in its ties with the toiling masses, mobilizes the workers, collective farmers, and intelligentsia for the fulfilment of economic and political tasks, educates the masses, and raises their communist consciousness. The policy of the Communist Party and the socialist state, aimed at satisfying the new and urgent needs of the economic development of society, plays the greatest progressive role.

The development of the socialist mode of production takes place in the order of the struggle between the new and the old, between the nascent and the moribund, between the progressive and the backward, by overcoming contradictions and difficulties. These contradictions are of a non-antagonistic nature, since they are not connected with opposing class interests and are overcome in the course of communist construction.

There are no exploiting classes in socialist society, but there are backward elements, bearers of private property tendencies and habits who oppose the development of new, progressive tendencies in the socialist economy, there are still plunderers of public property, bureaucratic elements who neglect the needs of the people, and the survivals of capitalism in the minds of the people have not yet been completely overcome. The Soviet state, led by the Communist Party, encourages the initiative of the working people and supports progressive tendencies in all spheres of social life. The Soviet state carefully supports the sprouts of the new, strengthens them, and promotes the introduction and dissemination of advanced methods of production. It



wages a stubborn struggle against all the inert forces that impede the rapid development of socialist production.

One of the main forms of the struggle between the new and the old under socialism is criticism and self-criticism, which constitute a powerful driving force in the development of socialist society. Criticism and self-criticism make it possible, on the basis of the mobilisation of the activity of the masses, to uncover and eliminate shortcomings and difficulties in the work, to reveal new reserves for accelerating the rate of economic development, and thereby to overcome the contradictions of socialist society.

Imperialist aggressive circles are trying to unleash war against the U.S.S.R. and the people's democracies and to develop subversive work in these countries by organising wrecking, sabotage and terrorist acts. This expresses the antagonistic contradiction between the U.S.S.R. and the forces of imperialist aggression. The existence of the imperialist camp demands that the Soviet state strengthen in every possible way the economic might of the U.S.S.R. and its defensive capability.

The workers' and peasants' state, taking advantage of the advantages of the socialist economic system and guided by economic laws, directs the development of Soviet society along the path to communism.

## **BRIEF CONCLUSIONS**

*1. The economic laws of socialism are objective laws that do not depend on the will and consciousness of people. They express the relations of comradely cooperation and socialist mutual aid of workers who are free from exploitation. The economic laws of socialism do not act as a blind, destructive force, but are known and used by socialist society. The Communist Party and the socialist state proceed*

in their economic policy from the economic laws of socialism.

2. The basic economic law of socialism determines all the main aspects and all the main processes of the development of the socialist mode of production, the goal of socialist production and the means for achieving this goal. The essential features and requirements of the basic economic law of socialism are to ensure the maximum satisfaction of the ever-growing material and cultural needs of the whole of society through the continuous growth and improvement of production on the basis of higher technology.

3. Under socialism, the growth of needs (the purchasing power of the masses) is the engine of socialist production, pushing it forward. The continuous growth of socialist production serves as the material basis for the steady rise of national consumption. A necessary condition for the continuous growth of socialist production is the preferential development of the production of the means of production. Socialism ensures the steady development of advanced technology, which is necessary for the continuous growth of socialist production, which more and more fully satisfies the growing needs of the working people.

4. In accordance with the constant increase in the mass of the product for oneself and the product for society, the real incomes of the working people are systematically increased. Socialism means the continuous improvement of people's working and living conditions. It opens up the widest possibilities for cultural construction, transforming all the benefits of technology, science, and culture into the common property of the people.

5. Expressing the vital interests of the people, the socialist state, led by the Communist Party, is expanding its economic, organisational, cultural and educational activities. The development of the socialist mode of production takes place in order to overcome contradictions

*and difficulties. Relying on scientific knowledge of objective economic laws and making use of these laws, the socialist state ensures the victory of the new and progressive over the old in all spheres of the economy, directing the development of society along the path to communism.*

## CHAPTER XXIX. THE LAW OF PLANNED (PROPORTIONAL) DEVELOPMENT OF THE NATIONAL ECONOMY

### **The Necessity of the Planned Development of the National Economy Under Socialism.**

The socialist mode of production is characterised by the planned and proportional development of the national economy. The necessity and possibility of the planned development of the socialist economy stems from the social ownership of the means of production. Engels wrote that with the transfer of the means of production to the ownership of society, “social production becomes possible according to a premeditated plan.”<sup>135</sup> In contrast to private ownership of the means of production, which separates commodity producers, gives rise to competition and anarchy of production, public ownership unites numerous enterprises into a single national economic whole. Large-scale socialised

socialist production cannot develop without a common plan, which gives unity of purpose and action to the whole of society. Large-scale socialist production in the USSR reigns supreme not only in industry but also in agriculture (in the form of state farms, machine and tractor stations, and collective farms). Socialism is inconceivable without a planned link between industry and agriculture, which provides raw materials and foodstuffs and consumes industrial products.

In the socialist economy, as a result of the socialisation of the means of production, such barometers of the economic life of bourgeois society as spontaneous

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<sup>135</sup> F. Engels, *Anti-Dühring*, 1953, p. 269.

fluctuations in market prices, rates of profit, the level of interest, and stock prices, which the capitalists are guided by when directing their capital to various branches of production, have been eliminated. Spontaneity and spontaneity are incompatible with the development of socialist society. Under socialism, the distribution of the means of production and labour power among the branches of the national economy is carried out in a planned manner. Just as capitalism is inconceivable without competition and anarchy of production, which entail the waste of social labour, socialism is inconceivable without the planned development of the national economy, which ensures the rational and economical use of social labour and its results.

Justifying the need for the planned development of the socialist economy, Lenin pointed out that it is impossible to run an economy without a plan designed for a long period, that the gigantic task of the socialist revolution is “transforming the entire state economic mechanism into a single large machine, into an economic organism working so that hundreds millions of people were guided by one plan.”<sup>136</sup>

Thus, social, socialist ownership of the means of production and large-scale socialised socialist production, both in industry and in agriculture, give rise to objective necessity and create the possibility of the planned and proportional development of the entire national economy.

*The planned (proportional) development of the national economy is the economic law of socialism.*

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<sup>136</sup> V. I. Lenin, Report on War and Peace at the VII Congress of the RCP (B), Works, vol. 27, p. 68

## **The Main Features and Requirements of the Law of Planned Development of the National Economy.**

Under socialism, the distribution of the means of production and labour power among the various branches of the socialist economy is carried out on the basis of the law of planned development of the national economy. The requirements of this law are that society should manage the national economy in a planned manner, that the individual branches of production should be systematically linked into a single whole, and that the necessary proportionality should be observed in their development, so that material, labour and financial resources should be used most reasonably and efficiently.

However, the law of planned development does not contain a task to the realisation of which proportions in the national economy must be subordinated. The character of proportions in a socialist economy is determined by the requirements of the basic economic law of socialism.

“The law of the planned development of the national economy can produce the desired effect only if there is a task for the sake of the realisation of which the planned development of the national economy is carried out. This task is contained in the basic economic law of socialism.”<sup>137</sup>

The law of planned, proportional development of the national economy is the regulator of production in the socialist economy in accordance with *the* requirements of the basic economic law of socialism.

The requirements of the basic economic law of socialism are realised at each given stage, depending on the level of development of the productive forces achieved, on the material resources available, and on the internal and external situation in which the socialist country lives. In

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<sup>137</sup> J. V. Stalin, *Economic Problems of Socialism in the USSR*, p. 41

accordance with this, and on the basis of the law of planned (proportional) development, proportions in the national economy are also established.

Among these proportions is, first of all, the correct relation between the production of means of production and the production of consumer goods. As mentioned above, ensuring the continuous growth of production on the basis of higher technology requires a more rapid development of the branches producing the means of production in comparison with the industries producing consumer goods. The development of heavy industry, and especially machine-building, is a necessary condition for technical armament and for the continuous growth of light, food, and other branches of industry that produce consumer goods.

Consequently, the proportions between the two subdivisions of social production must ensure, on the one hand, the preferential development of the branches producing the means of production, and, on the other hand, such an increase in the branches producing consumer goods as is required for the maximum possible satisfaction of the ever-growing needs of the masses of the people at a given level of productive forces.

The realisation of the task of building socialism in the U.S.S.R. and defending the country from external enemies - the imperialists, required the accelerated development of heavy industry. Without this, it was impossible to create a strong material and production base of socialism and ensure the country's economic independence and defence capability. As a result, the growth rate of heavy industry far exceeded the rate of development of industries producing consumer goods. Over the past 28 years, the production of means of production in the USSR as a whole has increased by about 55 times, while the production of consumer goods - by about 12 times. If in 1953 the production of means of production increased more than three times compared to 1940, the production of consumer goods increased by 72%. There was a discrepancy between the level of production of consumer goods and the

increased needs of the population in these items. At the same time, on the basis of the success achieved in the development of heavy industry in the fifth five-year plan, real conditions were created for a steep rise in the production of consumer goods.

Proceeding from this, the Communist Party and the Soviet state, while continuing to develop heavy industry in every possible way, are carrying out a broad program for the rapid development of the light and food industries and agriculture in order to solve in a short time the problem of a sharp increase in the production of consumer goods and an increase in the material well-being and cultural level of the Soviet people.

It is of paramount importance to establish the right proportions between industry and agriculture. Proportions in the development of industry and agriculture must ensure, on the one hand, the leading role of industry, which equips agriculture with advanced machinery and supplies the countryside with manufactured goods, and, on the other hand, the further uninterrupted growth of state and kolkhoz production for supplying the urban population with foodstuffs and industry with raw materials.

Over the years of its existence, socialist agriculture has achieved great success on the basis of the collective farm system. However, in terms of growth rates, agriculture is strongly behind industry. From 1940 to 1952, while industrial output grew 2.3 times, gross agricultural output at comparable prices grew by only 10%. In particular, such important agricultural sectors as grain production, animal husbandry, potato production, and vegetable growing are lagging behind. As a result, there is a clear discrepancy between the rapidly growing demand of the population for grain, meat, dairy products, vegetables, fruits, etc., on the one hand, and the level of agricultural production on the other.

This lag between agriculture and industry made it impossible to raise the people's consumption to the level which it could have reached at the present stage of industrial development of the country. The powerful development of



heavy industry created the conditions for a steep rise in socialist agriculture. There is an opportunity and a need to accelerate the growth rate of agricultural production in every possible way. Proceeding from this, in 1953 the Communist Party and the Soviet state set the task of achieving a decisive upswing in agriculture in the coming years in order to meet the growing needs of the country's population for food products in abundance and to provide raw materials for light industry.

There is a close relationship between industry and agriculture, as well as between individual branches within industry and within agriculture. For this reason, for the uninterrupted development of production, it is necessary to have the right proportions not only between industry and agriculture, but also between individual branches within industry, as well as between branches of agriculture. For example, the long-term lag in animal husbandry delays the further development of the light and food industries. In turn, the growth of animal husbandry is hampered by the lack of a sufficient fodder base and the lag of grain farming. The Soviet state is correcting this discrepancy by means of a decisive upsurge in animal husbandry, its fodder base and grain farming, so that the development of these branches will correspond to the task of a sharp increase in the people's consumption.

A condition for the planned and uninterrupted satisfaction of the ever-increasing demand on the part of the working masses for agricultural products and manufactured goods is the correspondence between the growing monetary incomes of the population and the mass of goods for personal consumption, taking into account the price level, the correct proportions between the growth of the production of consumer goods and the development of commodity turnover.

In order to meet the growing effective demand of the population, the Soviet state adopted a broad program of increasing the output of industrial and food products. Thus, in

1954-1956 the output of consumer goods increased several times as compared to 1950, in particular, woollen fabrics - by 2 times, meat - by 2.4 times, etc. In accordance with the planned program of increasing the production of consumer goods, retail trade in 1955 compared to 1950 doubled.

The proportional development of the national economy requires the rational distribution of socialist production among the regions of the country: the approximation of industry to the sources of raw materials and the areas of consumption, the integrated development of the economy of the regions, taking into account their characteristics, on the basis of a correct combination of branches and the fullest use of local resources. the economic and cultural upsurge of the national republics; reduction of irrational and long-distance transportation by rail and water.

Socialism has eliminated capitalism's inherent antagonistic contradiction between accumulation and consumption. In accordance with the requirements of the basic economic law of socialism, the correct proportions between accumulation and consumption must ensure both the continuous growth of socialist production and the systematic rise in the material well-being and cultural level of the masses of the people.

Under the conditions of transition from socialism to the higher phase of communism, such proportions of the development of the national economy are required that ensure the further strengthening and development of socialist production, the gradual creation of the material and production base of communism and an abundance of products.

Socialist society develops in the presence of imperialist aggressive powers hostile to it. Hence the need for such proportions in the national economy as to provide the socialist country with a powerful economic base in the event of an enemy attack from outside. The rapid growth of socialist industry and collective-farm production is the most

important condition for strengthening the economic independence and defence capability of the USSR.

The existence of a single, powerful socialist camp makes it necessary to coordinate the economies of all the countries of this camp in a planned manner.

Economic cooperation and mutual assistance between the USSR and the people's democracies facilitate the solution of the tasks of socialist construction and lead to the strengthening of the economic independence of these countries from the capitalist world and to the strengthening of their defence capability.

## **The Law of Planned Development of the National Economy and Socialist Planning.**

The requirements of the law of the planned development of the national economy are put into practice by the Communist Party and the socialist state by means of plans that organize and direct the creative activity of the working masses. The planned management of the national economy is the most important feature of the economic and organisational function of the socialist state. Socialist planning is based on a strictly scientific basis. To manage the national economy in a planned manner means to foresee. Scientific foresight is based on the knowledge of objective economic laws and proceeds from the urgent needs of the development of the material life of society.

A condition for the correct planning of a socialist economy is, first of all, the mastery of the law of the planned development of the national economy and its skilful use.

The law of the planned development of the national economy must not be confused with the planned management of the national economy by the planning organs

of the socialist state, nor with the annual and five-year plans for the development of the national economy. The law of planned development of the national economy is an objective economic law. It enables state bodies to properly plan social production. But possibility should not be confused with reality. In order to turn this possibility into reality, it is necessary to learn how to apply the law of planned development, it is necessary to draw up plans that fully reflect the requirements of this law.

In practice, plans do not always fully reflect the requirements of the law of planned development of the national economy. When these requirements are violated, the law of the planned development of the national economy makes itself felt by the fact that in certain areas of the national economy there are disproportions, the normal process of production and circulation is disrupted. If, for example, a certain number of cars are planned to be produced, but the required amount of sheet steel is not planned, this may lead to non-compliance with the car production plan. A plan for smelting pig iron that is not provided with the appropriate production of coke will not be viable.

The task of planning authorities is to correctly take into account the requirements of the law of planned development when drawing up plans and avoid imbalances, and in case of imbalances, take timely measures to eliminate them. Material, financial and labour reserves are important for the smooth development of the national economy. The availability of reserves makes it possible to quickly eliminate imbalances that occur in certain areas of the national economy, or to prevent their occurrence, and provides the possibility of flexible manoeuvring of resources.

Consequently, the planning of the national economy can produce a positive result, ensure the proportional development of the national economy and a continuous increase in production, if it correctly reflects the

requirements of the law of planned development of the national economy and is in all respects consistent with the requirements of the basic economic law of socialism.

The use of the economic law of labour distribution is important for the planned management of the economy, since it creates a material interest of workers in increasing labour productivity and is one of the engines of socialist production.

Socialist planning is based on the use of economic instruments related to the operation of the law of value: price, money, trade, credit. In national economic plans, production and distribution of products have a monetary value. The tool of planning management is economic calculation, which encourages economical production management, mobilisation of internal reserves, reduction of production costs and increase of profitability of the enterprise.

Proceeding from the requirements of the economic laws of socialism, comprehensively generalizing the practice of economic and cultural construction, taking into account the totality of the internal and external living conditions of the country of socialism, the Communist Party and the Socialist State establish at each stage the most important economic and political tasks of state plans. In accordance with this, the volume of output, the rate of expansion of production in each branch of the national economy, the amount of capital investment, the level of wages, etc. are determined.

The planned management of the national economy of the Soviet Union is carried out on the basis of directives issued by the Communist Party by the Council of Ministers of the USSR and the Councils of Ministers of the Union Republics. State plans are developed on the scale of the entire national economy as a whole, as well as by branches and individual departments, by republics, territories, regions and economic regions of the country. Development of plans and control over their implementation are carried out by the State

Planning Committee of the Council of Ministers of the USSR (Gosplan of the USSR), all-union and republican ministries, as well as local Councils that have their own planning bodies.

Socialist planning is based on a combination of long-term plans that express the main line of economic development for a number of years, and current plans that represent a specific program of work for a shorter period of time. Long-term plans include five-year plans for the development of the national economy and plans designed for longer periods. Current plans include annual plans. Current plans are developed based on long-term plans. Each state-owned enterprise (plant, mine, state farm, MTS, etc.) has its own technical and production financial plan (tehpromfinplan), which is compiled on the basis of state planning tasks and is a consolidated plan for the production, technical and financial activities of the enterprise.

The planned development of a socialist economy requires a combination of the principles of centralised planned management of the economy in terms of basic indicators, with the provision of the necessary independence and initiative in planning production to local authorities. Central planning authorities face the most important national economic problems: ensuring the correct proportions in the development of individual industries, making full use of existing reserves, achieving the greatest efficiency of capital investments, etc.

Excessive centralisation of the planning leadership, attempts to plan from the centre down to the smallest detail, without sufficient knowledge and consideration of local conditions and opportunities, hamper local initiative, hinder the fullest use of local resources and the huge reserves available in various sectors of the socialist economy, in various enterprises.

The state planned management of the kolkhozes has its own peculiarities arising from the nature of co-operative-kolkhoz ownership. The socialist state, in carrying out the

planned management of the collective farms, relies on the independent activity of the collective-farm masses. The initiative of the collective farms and collective farmers is one of the decisive factors in the development of agriculture and in making full use of the economic and natural conditions of each district and each collective farm. A correct system of planning presupposes the establishment by the central planning bodies for the regions, territories, and *republics* of the basic and decisive indicators and tasks for agricultural production and for the delivery of agricultural products to the state. In accordance with these basic and decisive indicators and tasks, the local planning bodies and collective farms themselves determine specific plans to ensure the best use of all productive resources.

On the basis of state assignments, the kolkhoz boards develop *annual production plans*, which are submitted for consideration and approval by general meetings of kolkhoz workers.

The stereotyped application of this or that farming system or agro-technical method without taking into account the peculiarities of each agricultural zone, the stereotyped approach in the placement of crops and livestock hinder the best use of local natural and economic conditions.

Further improvement of the methods of socialist planning presupposes the consistent centralisation of planning according to the basic and decisive indicators, while at the same time strengthening the role and unleashing the initiative of local bodies, industrial enterprises, and collective farms in the planned management of production, and ensuring a differentiated approach to planning in relation to each economic region, agricultural zone, enterprise, and collective farm.

Planned management of the national economy presupposes the identification of the *leading links in the economy*. The plan singles out the most important branches on which the successful implementation of the

entire national economic plan depends. These industries are primarily provided with means of production, labour and monetary resources. In accordance with the leading branches, other branches are also planned in order to achieve on this basis an upswing in the entire national economy and the most rational combination of its individual branches.

The law of planned (proportional) development of the national economy requires strict coordination of development plans for individual sectors and their coordination in a single economic plan. "All the plans of individual branches of production," said V. I. Lenin, "must be strictly coordinated, linked, and together form the single economic plan that we so much need."<sup>138</sup>

Economic plans include a certain range of indicators: *natural* (types of products, range of products, etc.) and *monetary* (amount of output, prime cost, income and expenses, etc.). *Qualitative* indicators (increase in labour productivity, cost reduction, profitability, improvement of product quality, efficiency of use of means of production - equipment, machines, machine tools, raw materials, etc.) are distinguished from the number of physical and monetary indicators. The main indicator of agricultural production is the maximum amount of production for every 100 hectares of agricultural land.

One of the most important methods of establishing the correct proportions of the national economy that meet the requirements of the law of planned development of the national economy is the development of a system of balances. On the basis of balance sheets, the socialist state establishes the *proportions* in the development of the national economy, expressed in kind and in money, and determines resources and their distribution among individual

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<sup>138</sup> V. I. Lenin, Report on the activities of the Council of People's Commissars at the VIII All-Russian Congress of Soviets, Works, vol. 31, p. 480.



branches of production and types of production. A comparison of resources with the need for them makes it possible to identify bottlenecks in the national economy, discrepancies in the level and rates of development between individual industries, and to outline measures to overcome bottlenecks. At the same time, the balance system makes it possible to uncover additional resources by saving raw materials and better using equipment. These resources are used to increase production and consumption. Balance sheets are divided into material (natural) balances, balances expressed in monetary form, and labour power balances.

*Material balances* reveal the relationship between the production and consumption of a given product or group of products in their physical terms. Material balances are drawn up for the most important products, for example: balances of machine tools, ore, metal, cotton, and other means of production, balances of items of personal consumption: meat, sugar, oil, etc.

Material balances are necessary for drawing up plans for the material supply of means of production to all branches of the national economy by ministries and departments. These plans provide for the improvement of the use of equipment, raw materials, fuel, etc., through the introduction of progressive standards.

*Balances expressed in monetary form* include the balance of monetary incomes and expenditures of the population, the balance of national income and its distribution, and others.

The *balances* of labour force determine the need of the national economy for labour resources, for qualified personnel, and the sources of covering this need.

Socialist planning, being a reflection of the requirements of the law of planned development of the national economy, has a directive character. State plans are not plans-forecasts, but plans-directives, which are binding on the governing bodies and which determine the direction of the economic development of the whole country.

State plans, after their approval by the supreme organs of the socialist state, acquire the force of a legal law that is binding. Economic managers are obliged to ensure the fulfilment of the plan by each enterprise from month to month and from quarter to quarter, not only in terms of the volume of gross output, but also in terms of assortment, to achieve systematic improvement of the quality of products and the cost reduction established by the plan.

Socialist planning has an effective and mobilizing character. Socialist plans direct the labour of millions of people on a national scale, give the toiling masses a clear perspective, and inspire them to feats of labour. The plan is the living creative activity of the masses. The reality of production plans is millions of workers creating a new life.

Making a plan is just the beginning of planning. Calling the Electrification plan of Russia (Goelro) the second program of the party, Lenin emphasised that "this program will be improved, developed, improved and modified every day, in every workshop, in every parish."<sup>139</sup> Every plan is refined, modified, and improved on the basis of the experience of the masses, taking into account the progress of the plan's implementation, since no plan can foresee in advance all the possibilities that lie hidden in the depths of the socialist system and that open up only in the course of work. In the struggle for the implementation of the plan in the factory, factory, state farm, and collective farm, the creative initiative and activity of the masses are manifested, socialist competition is developing, and new reserves of accelerated economic growth are opening up. The task of mass mobilisation is carried out under the leadership of the Communist Party by State and public organisations, trade unions, and the Komsomol. The active participation of the masses in the struggle for the fulfilment of plans for the

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<sup>139</sup> V. I. Lenin, Report on the Activities of the Council of People's Commissars at the VIII All-Russian Congress of Soviets, Works, vol. 31, p. 483.

development of the national economy leads to the fact that these plans are systematically exceeded, which accelerates the pace of building a communist society.

Socialist plans can play a mobilizing role only if the planning organs are guided by the new, the advanced that arises in the practice of communist construction, in the creativity of the masses. Plans should be calculated not on the arithmetical averages achieved in production, but on progressive standards of expenditure of labour, the use of equipment, the consumption of raw materials, fuel, and materials, i.e., *standards* equal to the experience of advanced enterprises and advanced workers.

The Communist Party and the Soviet state are waging a resolute struggle against attempts to draw up understated plans that do not mobilize anyone, against alignment with bottlenecks, as well as against projection in planning that does not take into account the real possibilities for the development of the socialist economy. Socialist planning requires an irreconcilable struggle against anti-state parochial and departmental tendencies, which are expressed in attempts to oppose the interests of an individual enterprise, district, or department to the interests of the state as a whole.

One of the most important aspects of the planned management of the national economy is the verification of the fulfilment of the plan, which makes it possible to establish to what extent the plan correctly reflects the requirements of the law of planned development of *the* national economy and how it is being carried out. It makes it possible to detect existing imbalances in a timely manner, to prevent the emergence of new imbalances in the economy, to uncover new production reserves and to make the necessary adjustments to national economic plans.

To ensure planned management of the socialist economy, a unified system of national economic accounting is necessary. Planned, socialist construction is unthinkable

without correct accounting. And accounting is unthinkable without statistics. In a socialist economy, accounting and statistics are organically connected with the national economic plan. Statistical data on the implementation of the plan serve as necessary material when drawing up a plan for the next period of time. The socialist system of accounting and statistics makes it possible to monitor the progress of the plan as a whole and in its individual parts.

### **Advantages of Planned Economy.**

The planned development of the national economy gives socialist society enormous advantages over capitalism.

In contrast to capitalism, where proportionality is an accident and the economy develops cyclically, through periodically recurring crises, the socialist economy develops continuously, in an ascending line and at an unprecedentedly high pace based on the proportions established by the socialist state in accordance with the requirements of the law of planned development of the national economy and the basic economic law socialism. A socialist economy is free from economic crises that destroy the national economy, cause colossal material damage to society and periodically set it back.

During the years of the pre-war five-year plans, that is, over a period of about 13 years, the Soviet Union made a leap that transformed the country from backward to advanced, from agricultural to industrial. During this time, the capitalist world experienced two economic crises - 1929 - 1933. and 1937, accompanied by a huge destruction of the productive forces, a colossal increase in unemployment and a sharp increase in the impoverishment of the masses. In the post-war period, the socialist economy in the USSR systematically developed on the basis of a continuous rise in production, and capitalist countries, and especially the USA, over the years

experienced the crisis of 1948-1949. In the second half of 1953, a new decline in production and an increase in unemployment began in the United States.

A socialist planned economy eliminates unemployment and ensures the use of the entire labour force of society. A capitalist economy inevitably generates unemployment, and capitalists use it as a means to provide their enterprises with cheap labour.

A planned economy presupposes the development of production in such a way as is aimed at satisfying the needs of the whole society. Capitalists invest their capital in those branches of economy where there is a higher rate of profit.

The socialist planned economy ensures the planned development of science and technology in accordance with the needs of the national economy. Under capitalism, the development of technics is subject to the law of competition and anarchy of production, proceeds extremely unevenly, and inevitably increases disproportionality in the development of production.

The socialist planned economy not only saves society from the colossal waste of social labour inherent in the capitalist economy, but also ensures the most economical and efficient use of all resources both within enterprises and on the scale of the national economy as a whole, and reveals ever new sources and reserves for the growth of production.

The socialist state establishes production links between enterprises in a planned manner and carries out the most rational distribution of socialist production.

In contrast to the private capitalist principle of profitability, which is subordinated to the interests of individual enterprises, the goal of obtaining maximum profit, the law of planned development of the national economy and socialist planning provide the highest form of profitability, that is, profitability taken from the point of view of the national economy as a whole. For this reason, under socialism such a grandiose scale of construction became

possible which is inconceivable under the conditions of capitalist economy with its private property, anarchy of production and competition.

## **BRIEF CONCLUSIONS**

*1. The necessity and possibility of the planned development of the national economy arise from social, socialist ownership of the means of production. The planned (proportional) development of the national economy is the economic law of socialism.*

*2. The law of planned (proportional) development of the national economy is the regulator of the distribution of the means of production and labour power in the socialist economy in accordance with the basic economic law of socialism. It requires that the economy be conducted in a planned manner, that all elements of the national economy develop proportionally, and that material, labour, and financial resources be used most reasonably and efficiently.*

*3. Socialist planning produces a positive result if it correctly reflects the requirements of the law of planned development of the national economy and conforms in all respects to the requirements of the basic economic law of socialism. In the process of planned management of the national economy, economic instruments connected with the operation of the law of value are used. The balance method of planning is of great importance in establishing the correct proportions of the development of the national economy.*

*4. The planned management of the national economy constitutes the most important feature of the economic and organisational function of the socialist state. National economic plans are drawn up by state organs on the basis of directives determined by the Communist Party, on the basis of a scientific generalisation of the experience of socialist construction, and on the basis of the advantages of the*

*socialist economic system and the external and internal situation of the country. The state plans are guided by all that is advanced in the practice of communist construction and in the creative work of the masses, and are directive in character. The necessary conditions for the planned management of the national economy are the mobilisation of the masses for the fulfilment and overfulfilment of the planned tasks and the organisation of daily verification of the fulfilment of the plan.*

*5. The planned, crisis-free development of the national economy is the greatest advantage of socialism over capitalism, ensuring economy of resources inaccessible to the bourgeois system and opening up the full possibility for a continuous, rapid and all-round growth of production in the interests of the masses of the people.*

## CHAPTER XXX. SOCIAL LABOUR UNDER SOCIALISM

### **The Nature of Labour Under Socialism. The Principle of Material Interest.**

The establishment of socialist relations of production means a radical change in the nature of labour. Labour under socialism is labour *free from exploitation*. "For the first time after centuries of working for others, of forced labour for the exploiters, there is an opportunity to *work for oneself*, and moreover, work based on all the achievements of modern technology and culture."<sup>140</sup>

Whereas under capitalism forced labour appears directly as private labour, under socialism labour has a *directly social character*. Social ownership of the means of production makes it possible and necessary to organize labour in a planned manner on the scale of society as a whole.

The position of the working person in society has changed radically. In contrast to capitalism, where a person's position is determined by his social background and wealth, a person's position in a socialist society is determined only by his work and personal abilities.

Emancipation from exploitation and the change in the position of the working person in society cause a revolution in people's views on work and give rise to a new attitude to work. Whereas for centuries the exploitative system has created in numerous generations of working people an aversion to work as a heavy and shameful burden, socialism transforms labour into a matter of honour, valour and heroism, and gives it an increasingly *creative* character. In a socialist society, the working man, if he works well, takes

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<sup>140</sup> V. I. Lenin, *How to Organize a Competition?*, Works, vol. 26, p. 363.



the initiative in improving production, and is surrounded by honour and glory.

At the same time, labour under socialism has not yet become the first vital need of the members of society, it has not turned into a habit of working for the common good. At the stage of socialism, the survivals of capitalism in the minds of the people have not yet been completely overcome. Along with the majority of employees who honestly fulfil their duties to society and show creative initiative in their work, there are employees who are unscrupulous about their duties and violate labour discipline. Such people strive to give as little as possible to socialist society and to receive as much as possible from it.

Under socialism there are still considerable remnants of the old division of labour, the essential differences between mental and physical labour, between the labour of the worker and the peasant, between skilled and simple labour. These remnants of the old division of labour are being overcome only gradually, in the course of the development of the productive forces of socialism and the creation of the material and production basis of communism.

All this means that under socialism the principle of the material interest of the worker in the results of his labour, in *the development of production*, is of paramount importance. This interest is ensured by the fact that the position of the employee in society is made dependent on the results of his work, on the results of his production activity.

The principle of the material interest of each worker in the results of labour is one of the fundamental principles of socialist management. Lenin pointed out: "Every large-scale branch of the national economy must be built on the basis of personal interest".<sup>141</sup>

The principle of material interest finds the widest application in the remuneration of workers and office

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<sup>141</sup> V. I. Lenin, *New Economic Policy and Tasks of Political Education*, Works, vol. 33, p. 47

workers, in the distribution of income in collective farms, in the organisation of economic accounting, in the setting of prices for industrial and agricultural products, and so on.

All this determines the need for “the *strictest* control on the part of society and on the part of the state over the measure of labour *and* the measure of consumption.”<sup>142</sup> Socialist society controls people’s participation in labour, takes into account differences in the qualifications of workers, and determines labour standards and wages for each worker. As long as labour has not yet become a natural need for the overwhelming majority of the members of society, the task of the socialist state is to organize social labour in such a way that those who work harder and better receive a greater share of the product of social labour.

### **Work as the Duty of Members of Socialist Society. Realisation of the Right to Work.**

Socialism and labour are inseparable. Socialism has put an end to the flagrant contradiction of the capitalist system, in which the exploiting elite of society leads a parasitic way of life, and the working masses bear the yoke of back-breaking labour, interrupted only by periods of forced idleness and unemployment. By abolishing capitalist ownership of the means of production, socialism abolished the conditions under which one class—the owners of the means of production—could live off the labour of another class of people deprived of the means of production. The establishment of social ownership of the means of production means an equal obligation of citizens to take part in social labour, since under socialism only personal labour is the

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<sup>142</sup> V. I. Lenin, *State and Revolution*, Works, vol. 25, p. 441.

source of people's existence. Work in the U.S.S.R. is the duty and a matter of honour of every citizen capable of work.

For the first time in the history of mankind, the socialist system has realised not only the equal obligation for all able-bodied citizens to work, but also the equal right for all citizens to work. Thus, under socialism, the age-old dream of the toiling masses has been realised. The right to work is conditioned by public ownership of the means of production, which gives all citizens equal access to work on public land, in public factories and plants. *The* right to work is the right of every able-bodied member of society to receive a guaranteed job with remuneration in accordance with its quantity and quality. The right to work, which is enshrined in the Constitution of the USSR, is actually guaranteed by the socialist organisation of the national economy, the steady growth of the productive forces of society, the elimination of the possibility of economic crises, and the elimination of unemployment.

Unemployment, the scourge of the working people under capitalism, has been abolished in the U.S.S.R. once and for all, so that the workers are in no danger of being thrown out of the gates of the factories at any moment and deprived of all means of subsistence. The abolition of unemployment and the elimination of workers' uncertainty about the future, the abolition of impoverishment and pauperism in the countryside were the great achievements of the Soviet people.

The realisation of the right to work makes it possible to enormously increase the use of the labour resources of society for the development of production. The continuous upsurge of production under socialism makes the steady growth of the number of workers and office workers natural.

The number of workers and employees in the national economy of the USSR at the end of the year was: in 1928 - 10.8 million, in 1932 - 22.8 million, in 1937 - 27 million, in 1940 - 31.5 million, in 1953 - 44.8 million people.

The elimination of unemployment in the cities, agrarian overpopulation and poverty in the countryside, and the continuous growth of socialist production radically change the conditions under which enterprises are provided with labour. Whereas under capitalism the demand for labour power is satisfied spontaneously, at the expense of a reserve army of the unemployed and agrarian overpopulation, under socialism the supply of labour power to enterprises takes place in a planned manner, through organised recruitment, organised training, and distribution of labour power.

In contrast to capitalism, which turns the worker into an appendage to the machine, stifling the abilities of the people, socialism creates the necessary conditions for the development and free expression of the abilities of the working people through the emancipation of labour from exploitation and the free access of all citizens to education.

The continuous upsurge of socialist production on the basis of higher technology requires a steady increase in the cultural and technical level of the working people and an increase in the proportion of skilled workers in all branches of the national economy.

Under socialism, the growth of the cultural and technical level of the working people is ensured primarily by the development of public education. In the Soviet Union, universal compulsory seven-year education is being carried out and the transition to universal compulsory secondary (ten-year) education is being made. Special secondary and higher education has been widely developed. In this connection, the cultural image of the working class and the peasantry is changing. Illiteracy and darkness are a thing of the past. An increasing proportion of workers and kolkhoz workers are those with seven-year and secondary education.

The cultural and technical level of workers is also raised through industrial and technical training, which includes both the training of new workers and on-the-job training. In order

to meet the needs for qualified personnel in the most important branches of the national economy, a system of state labour reserves has been created in the USSR, including a network of trade and railroad schools and schools of factory training. Pupils in these schools and colleges are supported by the State during their studies. Along with the system of state labour reserves, an important source of replenishment of the cadres of skilled workers is the mass industrial training of workers through individual team and course training at enterprises, covering millions of workers. The number of intellectuals is growing rapidly, as is the number of highly qualified specialists who have come from among the workers and peasants.

Over the course of thirteen years (from 1941 to 1953 inclusive), about 7 million young skilled workers in various professions were trained at the expense of the state in trade and railway schools, as well as in factory training schools. During the first three years of the Fifth Five-Year Plan, an average of 2.5 million new skilled workers were trained annually in enterprises by means of individual brigade and course industrial training, and up to 3.5 million workers improved their qualifications. During the first three years of the Fifth Five-Year Plan, more than 2.5 million kolkhoz workers annually participated in agro-zootechnical courses with a three-year period of study. The system of correspondence education of workers and kolkhoz workers is also widely developed.

## **Distribution According to Labour is the Economic Law of Socialism.**

The socialist mode of production also determines the form of distribution corresponding to it. Engels wrote, referring to socialist society: "Distribution, in so far as it is governed by purely economic considerations, will be

regulated by the interests of production, and the development of production is most stimulated by a mode of distribution which enables *all* members of society to develop, maintain, and manifest their abilities as comprehensively as possible.<sup>143</sup> Under socialism, this requirement is most closely met by distribution according to labour.

In the first phase of communism, the productive forces had not yet reached such a high level of development as to ensure the abundance of products necessary for distribution according to needs. In view of this, the only possible and necessary way of distributing material goods is distribution according to labour. Ensuring the personal material interest of each employee in the results of his work, distribution by labour is a powerful engine for the development of production. By stimulating an increase in labour productivity, labour distribution at the same time contributes to an increase in the well-being of production workers.

Distribution according to labour, placing the share of each worker in the product of social labour in direct dependence on the degree of his participation in social production, connects the personal interests of the worker with the general interests of the state.

Distribution according to labour necessitates strict consideration of the distinction between skilled and unskilled labour. Higher wages for skilled labour pay homage to the worker's qualifications and open up the prospect of unskilled workers moving up to the skilled category. This stimulates the rise in the cultural and technical level of the working people and leads to the gradual elimination of the essential difference between mental and physical labour.

Labour distribution contributes to the elimination of labour turnover, the creation of permanent personnel, which is of great importance for improving the organisation of labour in enterprises. Without a permanent staff of workers who have mastered technique and accumulated production

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<sup>143</sup> F. Engels, *Anti-Dühring*, 1953, p. 188.

experience, the successful development of socialist production is impossible.

Thus, distribution according to labour is an objective necessity, an economic law of socialism.

*The economic law of distribution according to labour* requires the distribution of products in direct proportion to the quantity and quality of labour of each worker, equal pay for equal labour regardless of sex, age, race, and nationality of citizens of socialist society. Wages in both industry and agriculture are based on the requirements of this law.

The economic law of distribution according to labour is being implemented by the Communist Party and the Soviet state in a resolute struggle against the greedy tendencies of the backward elements, against petty-bourgeois equalisation, i.e., equalizing wages for labour, regardless of its quantity and quality, the qualifications of the workers, and the productivity of labour. Egalitarianism is an expression of the petty-bourgeois conception of socialism as a general equalisation in the sphere of consumption, living conditions, tastes, and needs. It causes great damage to production, leads to staff turnover, to a decrease in labour productivity, and to non-fulfilment of plans. By exposing the petty-bourgeois conception of socialism, Lenin clarified the Marxist conception of equality. By equality, Marxism does not mean equality of physical and mental faculties, but social, economic equality. For socialism, this means equal for all the abolition of private ownership of the means of production and exploitation, equal access to work on the social means of production, equal obligation for all to work, and the same principle of payment for labour for all.

## Socialist Co-operatives of Labour.

Socialism marks a new, higher stage in the historical development of the co-operation of labour as compared with previous formations. *The socialist co-operatives of labour* are the co-operatives of workers who are free from exploitation and who are bound together by relations of comradely co-operation and mutual assistance; It is based on the most advanced technology. Socialist co-operatives create an immeasurably more powerful productive force of labour than capitalist co-operatives. The methods of increasing the productive power of social labour inherent in cooperatives—the use of the division of labour and machine technics, the economy of the means of production as a result of their joint use, etc.—are most developed under socialism.

In contrast to private ownership of the means of production, which limits the scope of labour cooperation, social ownership of the means of production broadens the boundaries of labour cooperation and makes possible the use of the joint labour of many people on a scale inaccessible to capitalism. This is expressed in the unprecedented degree of concentration of production in both industry and agriculture, and in the implementation of large-scale national economic measures.

Socialist cooperation is characterised by a new discipline of labour, fundamentally different from all previous formations. The capitalist organisation of social labour is based on the discipline of hunger, and the vast mass of the working people remains under capitalism a dark and downtrodden mass of wage-slaves or peasants crushed by want, exploited by a handful of capitalists and landlords. *Socialist labour discipline* is the class-conscious, comradely discipline of the working people who are the masters of their country. Under socialism, the maintenance of the necessary discipline of labour is in the fundamental



interests of the working masses. The education of the working people in the spirit of socialist labour discipline is one of the most important tasks of the socialist state.

Any joint work of many workers needs a *management* that coordinates the actions of these workers and organizes the necessary production links between them. Socialist cooperation of labour presupposes the firm and unswerving implementation of one-man management in all links of the production and administrative apparatus. *One-man management* is a method of managing state socialist enterprises based on the subordination of the masses to the unified will of the leader of the labour process. It is combined with the broad creative initiative of the masses in the process of production.

With the abolition of capitalist exploitation, the despotism of management, which is inseparable from it, has also been abolished, signifying the omnipotence of capital, the arbitrariness of the entrepreneur and his administration, and the lack of rights of the working masses. In a socialist society, the heads of enterprises, trusts, main administrations, and ministers are trusted people and servants of the people and the socialist state. Under capitalism the people regard the economic leaders - directors, managers, shop managers, foremen - as enemies, because they direct the economy in the interests of the capitalists, for the sake of their profits. Under socialism, the economic leaders enjoy the confidence of the people, because they manage the economy not for the sake of the profits of the capitalists, but for the sake of the interests of the whole people.

The abolition of exploitation fundamentally changes the relationship between people working mentally and physically. The antagonism of interests between the workers and the management of enterprises, characteristic of capitalism, has disappeared. Under socialism, manual workers and the managerial personnel of enterprises are

members of a single production collective, vitally interested in the prosperity and improvement of production. Hence the creative community of manual and mental workers, aimed at the constant improvement of production.

Whereas under capitalism the labour of the workers is becoming more and more devoid of spiritual content and the gulf between mental and physical labour is growing, in socialist society there is an ever greater enrichment of physical labour with spiritual content, a rapprochement of physical and mental labour, and a gradual abolition of the essential difference between them. This is expressed in the continuous rise in the cultural and technical level of the working class and peasantry and in the development of socialist emulation, which is the most important feature of the co-operation of labour under socialism.

### **Socialist Competition.**

Socialist emulation is a method of increasing the productivity of labour and improving production on the basis of the maximum activity of the labouring masses. Lenin pointed out that socialism for the first time made it possible to apply competition on a really broad scale, on a mass scale, to embrace the vast masses of the working people. Socialist emulation is aimed at the fulfilment and overfulfilment of national economic plans and at ensuring the continuous upsurge of socialist production.

Socialist emulation is fundamentally different from the competition that prevails in bourgeois society.

“The principle of competition: *the defeat and death of some*, the victory and domination of others.

The principle of socialist emulation is comradely *strength* to the stragglers on the part of the advanced, in order to achieve *a general* upsurge.

Competition says: *finish off the stragglers* in order to assert your dominance.

Socialist emulation says: some work badly, others well, others better—*catch up with the best* and achieve a *general upswing*. ”<sup>144</sup>

Socialist emulation expresses the comradely cooperation of the working people, their joint struggle for a common upsurge in production.

Instead of such engines of production as the pursuit of profit and competition, socialism has given rise to new and incomparably more powerful driving forces. First of all, it is the deep interest of the masses in the development of social production, which stems from the basic economic law of socialism. The fact that people under socialism do not work for the exploiters, but for themselves, for their society, is an inexhaustible source of the rise of socialist production. Distribution according to labour plays an important role in the development of socialist competition. By making the wages of the worker dependent on the quantity and quality of his labour, the payment for labour stimulates the creative initiative of the masses in the process of production.

A characteristic feature of the competition is the creative initiative of innovators and leaders of production, who have perfectly mastered advanced technology, discarding old, obsolete norms and methods of work and putting forward new ones. Many workers have not only mastered the technical minimum, but have also become on a par with the technical staff. In the struggle against all that is old and obsolete, advanced people are paving new paths for the development of production and uncovering new reserves for the growth of labour productivity.

The creative initiative of the working people does not allow production to stagnate, to get stuck in place, it is the source of its constant movement and improvement. The

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<sup>144</sup> J. V. Stalin, Competition and Labour Uplift of the Masses, Works, vol. 12, p. 110.

advanced methods of work used by innovators are based on radical improvements in the organisation of labour (division of labour, combination of professions, etc.), the organisation of production (work according to a schedule), technology and techniques of production (intensification of technological processes, improvement of tools, devices, machine tools, etc.). Agricultural leaders apply new methods of agricultural technology and zoo-technics that increase crop yields and livestock productivity.

Socialist emulation presupposes the rapid and wide dissemination of best practices. Under socialism, the power of example for the first time exerts mass action, serving as a means of continuous upsurge and improvement of production. This is achieved, firstly, as a result of active comradesly assistance on the part of innovators to all workers in production in the mastery of advanced methods of labour, which takes various forms (personal instruction, patronage of the cadre workers over the newcomers, schools of the foremost and innovators of production, etc.), secondly, as a result of the striving of the mass of the working people to catch up with the advanced people, to master their experience, in order to achieve a general upswing. Thirdly, by ensuring wide publicity of the competition and the comparability of the results of the work of enterprises. Based on the best practices of production innovators, state economic bodies determine progressive norms of labour inputs and the use of means of production, which form the basis of production plans. The dissemination of best practices and the adoption of new standards and methods of work by the majority of workers ensure the achievement of a new, higher level of productivity.

The Communist Party and the Soviet state are at the head of the socialist emulation of the masses and give it every possible support. For success in work, workers not only receive material encouragement, but are also awarded orders and medals, and for outstanding innovative activity

they are awarded the title of Hero of Socialist Labour and the Stalin Prize.

Socialist competition in the U.S.S.R. acquired a national character. The most widespread and effective form of competition in enterprises is individual and team competition. Along with this, competition is being developed between workshops, enterprises, collective farms, MTS, state farms, between districts, regions and republics. Competition for high quality products, for better use of production capacities, for reducing the cost of production, for over-planned savings in material and money resources, for high crop yields and livestock productivity has become widespread. In 1953, more than 90% of all workers participated in the socialist industrial competition. The number of inventions, technical improvements and innovation proposals introduced in 1953 in industry, construction and transport amounted to more than 850 thousand.

Socialist emulation in town and country is of paramount importance for the development of the socialist economy and for the building of communism.

### **The Steady Growth of Labour Productivity is the Economic Law of Socialism.**

A steady increase in labour productivity is an essential condition for building communism. Lenin wrote: "Productivity of labour is, in the last analysis, the most important thing, the most important thing for the victory of the new social system. Capitalism has created a productivity of labour unseen under serfdom. Capitalism can and will be finally defeated by the fact that socialism creates a new and much higher productivity of labour."<sup>145</sup>

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<sup>145</sup> V. I. Lenin, The Great Initiative, Works, vol. 29, p. 394.

As you know, labour productivity is measured by the amount of output produced by a worker per unit of time, or the amount of labour time spent per unit of output. An increase in the productivity of labour is expressed in the fact that the share of living labour in the product decreases, while the share of past labour relatively increases, while the total amount of labour contained in a unit of production decreases. An increase in labour productivity means an increase in output per unit of labour time.

From the social point of view, the productivity of labour increases with its economy, including the economy of both living and objectified labour on the scale of the whole society. Marx points out that real economy consists in the saving of labour-time, and that this saving is identical with the development of the productive power of labour. Socialism abolishes the enormous waste of labour inherent in the anarchist system of capitalism and ensures the planned and most rational use of the means of production and the labour resources of society. The working people of the U.S.S.R. are interested in the maximum economy of the means of production, which finds expression in the mass movement for the economy of raw materials, fuel, and materials, and for the better use of machinery and equipment.

The need for a systematic and rapid increase in the productivity of labour is determined by the basic economic law of socialism. The continuous growth of socialist production takes place, first, at the expense of an increase in the productivity of labour of each individual worker (growth of output). In the period from 1940 to 1953, about 70% of the increase in industrial output was obtained from this source. The continuous growth of socialist production takes place, secondly, by an increase in the total number of employed workers, as well as by an improvement in the use of labour (living and materialised) within the framework of society as a whole. For the growth of the productivity of

social labour, it is of great importance to increase the proportion of workers engaged in material production, as well as in the main production processes, by reducing the administrative and managerial apparatus and personnel engaged in auxiliary and auxiliary work.

A systematic increase in labour productivity, ensuring a rapid increase in production, creates an opportunity for both the growth of consumption and the expansion of production.

The growth of labour productivity is the most important condition for the further development of the national economy, the realisation of a steep rise in the production of consumer goods, and the fullest satisfaction of the growing needs of the people. In order to win the economic competition with the developed capitalist countries, it is necessary to steadily increase the productivity of labour. "All of us, the Soviet people, all our people, must realize well that the main, decisive condition for the further development and all-round development of the national economy is the all-round increase in the productivity of labour in all branches—in industry, in transport, in agriculture. We must all know that without a serious and continuous increase in the productivity of labour it is impossible to successfully achieve a significant and rapid improvement in the well-being of the Soviet people."<sup>146</sup>

Due to the contradictions inherent in capitalism, the growth of labour productivity in bourgeois society is slow and unstable. Marx pointed out that "for capital, the law of the increasing productive power of labour is not of absolute significance."<sup>147</sup>

Together with the abolition of private capitalist property, all obstacles that stand in the way of the growth of labour productivity are destroyed. Under socialism, *the*

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<sup>146</sup> G. M. Malenkov, Speech at the meeting of voters of the Leningrad electoral district of Moscow on March 12, 1954, p. 7.

<sup>147</sup> K. Marx, *Capital*, vol. III, 1953, p. 273.

*economic law of steady growth of labour productivity exists and operates.*

Socialism opens up ways and methods of increasing the productivity of labour that are inaccessible to capitalism.

Under socialism, the growth of labour productivity is ensured primarily through the systematic development and consistent application of advanced technology that facilitates people's labour, while under capitalism, labour productivity is achieved primarily through the excessive intensification of labour, which exhausts the worker. The necessary conditions for the growth of labour productivity are: constant improvement of technology, mechanisation, electrification of production, all-round improvement of the use of available equipment, and consistent struggle against anti-mechanisation tendencies.

A powerful factor in the growth of labour productivity is the continuous rise in the material well-being of workers, the improvement of their qualifications and cultural and technical level.

The socialist organisation of labour, based on conscious discipline and comradely cooperation of workers, as well as the payment of labour according to its quantity and quality, opens up enormous opportunities for the growth of labour productivity. The further improvement of wages for labour, the strengthening of socialist discipline and order in production, and the increase in the proportion of workers directly engaged in material production are a major reserve for the growth of labour productivity.

The driving force behind the growth of labour productivity under socialism is the development of the creative initiative of workers in the improvement of technique and the organisation of production, which finds its expression in socialist competition. Of great importance for the growth of the productivity of social labour is the study and dissemination of the best practices accumulated by innovators of production.



The socialist economic system necessitates and creates the possibility of a steady increase in the productivity of labour.

During the first five-year plan, labour productivity in the USSR industry increased by 41%, and during the second five-year plan-by 82%. The average annual increase in labour productivity in the first five-year plan was 9%, and in the second five-year plan-12.7%. Capitalist industry did not know such rates of growth in labour productivity. In 1940, labour productivity in the USSR industry increased 4 times, and taking into account the reduction of the working day-5.2 times compared to the level of 1913. In the post-war period, further technical re-equipment of the national economy, advanced training and creative initiative of workers and engineering personnel led to a new increase in labour productivity. In 1953, labour productivity increased by 71% in industry and by 50% in construction compared to 1940.

Over the past 25 years (1928-1953), labour productivity has increased approximately 6-fold in industry, 3.5-fold in construction and railway transport. Labour productivity in collective and state farms exceeds labour productivity in pre-revolutionary agriculture by about 3 times.

However, from the point of view of solving the problems of satisfying the growing needs of the people as much as possible and of successful economic competition with the advanced capitalist countries, the level of labour productivity achieved in the USSR is insufficient. The Communist Party mobilizes the working people in the struggle for a new and powerful increase in labour productivity.

A steady increase in the productivity of labour, which ensures the creation of an abundance of consumer goods, is a necessary prerequisite for the transition from socialism to communism.

## BRIEF CONCLUSIONS

1. Socialism freed the working people from exploitation and carried out the replacement of forced labour for exploiters by free labour for oneself, for the whole of society. Labour under socialism has a creative character and is systematically organised on the scale of society. But work under socialism has not yet become the first vital need of people and needs material stimulation. Socialist society exercises the strictest control over the measure of labour and the measure of remuneration of each worker.

2. Work in the USSR is the duty and a matter of honour of every member of society capable of work. In the socialist system of the national economy, unemployment has been abolished and the right to work has been exercised for all members of society. The continuous growth of production under socialism is accompanied by a steady increase in the number of employed workers and an increase in their cultural and technical level.

3. One of the fundamental principles of socialist economic management is the principle of the material interest of each worker in the results of his labour. Under socialism there is an economic law of distribution according to labour, which requires the distribution of material goods in direct dependence on the quantity and quality of labour.

4. The socialist co-operative labour is the co-operation of workers who are free from exploitation and who are bound together by relations of comradely co-operation. It is based on higher technology and is characterised by conscious discipline and a new type of management that combines unity of command with a broad development of the activity and self-activity of the masses. The most important feature of socialist co-operation is socialist emulation. Socialist emulation is the driving force behind the development of the socialist economy.

5. *Socialism creates a higher productivity of social labour than capitalism. The growth of labour productivity is a decisive condition for the continuous growth of socialist production and the well-being of the people. The steady growth of labour productivity is an economic law of the development of socialist society.*

## CHAPTER XXXI. COMMODITY PRODUCTION, THE LAW OF VALUE, AND MONEY UNDER SOCIALISM

### **The Necessity of Commodity Production Under Socialism and Its Peculiarities.**

The necessity of commodity production under socialism stems from the existence of two basic forms of socialist production—state and collective-farm. In state-owned enterprises, the means of production and products are the property of the whole people. In the kolkhozes, the means of production (draught and productive livestock, agricultural implements, outbuildings, and so on) and the products produced by the kolkhozes constitute group, cooperative-kolkhoz property. The main and decisive means of agricultural production (land and MTS machinery) are owned by the state. Since the products of the state enterprises belong to the socialist state, and the products of the collective farms belong to the collective farms, the necessary form of economic communication between industry and agriculture is exchange through purchase and sale. Here, as in any purchase and sale, the owner of the commodity loses the right of ownership of the commodity, and the buyer becomes the owner of this commodity.

Lenin pointed out that “the exchange of the products of large-scale (socialised) industry for peasant products is the economic *essence* of socialism,”<sup>148</sup> that commodity exchange is a test of the correct relations between industry and agriculture. These propositions of Lenin retain their

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<sup>148</sup> V. I. Lenin, Plan of the Brochure “On the Food Tax”, Works, vol. 32, p. 300.

significance for the whole of the first phase of communism. The Soviet state acquires food for the urban population and raw materials for industry, chiefly from the collective farms and collective farmers, by means of procurement and purchases. In turn, the kolkhozes and kolkhoz workers can obtain the funds they need for the purchase of industrial products only by selling their marketable products to the state, to the cooperatives, and on the kolkhoz market.

Thus, the agricultural products and raw materials supplied from the collective-farm sector to the state and the cooperatives in the form of procurement and purchases, as well as the agricultural products sold on the collective-farm markets, are commodities. Commodities are also industrial products, mainly articles of personal consumption, produced by state-owned enterprises and bought by kolkhozes and kolkhoz workers. Since personal consumption items are commodities, they also reach the urban population through purchase and sale.

Commodity production under socialism is not ordinary commodity production, but is commodity production of a special kind. It is commodity production without private ownership of the means of production, without capitalists. It is mainly carried out by united socialist producers (the state, collective farms, and cooperatives). Thanks to such decisive economic conditions as social ownership of the means of production, the abolition of the system of wage labour and the exploitation of man by man, commodity production under socialism is placed within certain limits. In view of this, it cannot be transformed into capitalist production and serves a socialist society.

Commodity production in socialist society does not have such an unlimited and comprehensive spread as under capitalism. Under socialism, the sphere of commodity production and commodity circulation is limited mainly to articles of personal consumption. In a socialist society, labour power is not a commodity. Land with its subsoil is

state property and cannot be the subject of purchase or sale, or lease. State enterprises - plants, factories, mines, power plants with their main production assets (instruments of production, buildings, structures, etc.) - cannot be sold and bought, but can be transferred from one state organisation to another only with special permission and, therefore, are not commodities, an object of purchase and sale.

The means of production produced in the public sector - machinery, machine tools, metal, coal, oil, etc. - are distributed among the state-owned enterprises. The national economic plans provide for the allocation of certain material assets to each enterprise in accordance with its production program. These funds are supplied by producer enterprises to consumer enterprises on the basis of contracts concluded between them. When the means of production are transferred to one or another enterprise, the socialist state retains its entire ownership of these means of production. The directors of enterprises who have received the means of production from the socialist state are by no means transformed into their owners, but are authorised by the state to use the means of production in accordance with state plans. Collective farms buy motor vehicles, equipment for their public economy, and the simplest agricultural machinery and implements. But the main agricultural machines - tractors, combines, etc. - are not sold to the collective farms, but are concentrated in state enterprises - machine and tractor stations, which serve the collective farms with the help of these means of production. The means of production distributed domestically to state-owned enterprises are not essentially commodities. But they retain the form of goods, they have a monetary value, which is necessary for accounting, for calculation.

In the field of foreign trade, the means of production sold to foreign countries are commodities. Here there is a purchase and sale, a change of owners of goods.

## Use-Value and Commodity Value in the Socialist Economy.

Those products which are produced and sold as commodities in a socialist society have a *use-value* created by concrete labour and a *value* created by abstract labour. In other words, under socialism the commodity has a dual character, determined by the dual character of the labour that produces the commodity.

The dual character of labour under socialism is fundamentally different from the dual character of labour in a simple commodity economy and in a capitalist economy. Under the conditions of commodity production based on private property, the dual character of the labour producing the commodity reflects the contradiction between private and social labour. Socialist economy does not know this contradiction. As has already been said, in a socialist economy labour is not private labour, but direct social labour. The company plans in advance the work of employees in the production process. The distribution of labour between the various branches of the national economy and individual enterprises proceeds in a planned manner. For this reason, commodity fetishism has been overcome in the socialist economy, and the social relations of people do not accept the deceptive appearance of relations between things.

Under socialism, however, there is a distinction between direct social labour in state enterprises, where labour is socialised on a national scale, and direct social labour in collective farms, where labour is socialised only within the framework of a given agricultural *artel*. In addition, *kolkhoz* workers also employ their labour in their personal subsidiary farms, which are of subordinate importance. These differences in the degree of socialisation of labour and the existence of commodity links between state industry and the *kolkhozes* make it impossible to express and compare the social labour expended on the production of industrial and

kolkhoz products directly in labour time. Hence the necessity of an indirect co-measurement of social labour through the use of value and its forms. This co-measurement is based on the reduction through the exchange of commodities of various concrete types of labour of workers and collective farmers to abstract labour which creates the value of the commodity.

In the process of planned management of the national economy, the socialist state takes into account both aspects of the commodity, both use value and value. The state demands from its enterprises the production of certain kinds of products, certain use-values. If the capitalist is interested in use value only as a carrier of value and surplus value, then in a socialist economy the creation of use values and the improvement of the quality of products are of the utmost importance, since production is carried out in the interests of the fullest satisfaction of the growing needs of the whole of society.

In a socialist economy, the value of commodities is also essential. The state plans production not only in kind, but also in monetary terms. At the same time, a systematic reduction in the cost of goods produced and, on this basis, a reduction in prices plays an important role in ensuring the maximum satisfaction of the needs of society.

In the socialist economy there is no antagonistic contradiction between use-value and value, which is fraught with the possibility of crises of overproduction. A socialist economy provides full opportunity to fulfil production plans both in monetary and physical terms.

However, in the practice of socialist construction, when the requirements of economic laws and, in particular, the law of the planned development of the national economy are violated, contradictions may arise between the use value and the value of the commodity. This happens, for example, when the managers of individual enterprises, in pursuit of the fulfilment of the cost plan, strenuously produce certain types



of products that are more profitable for the enterprise, without fulfilling the production plan for the entire assortment. But such contradictions are not antagonistic and are resolved in the order of planned management of the economy.

In the socialist economy there is a distinction between complex (skilled) and simple labour, and complex labour is reduced to simple labour. The correlation between complex and simple work is taken into account in the planning of production, in the determination of production rates, as well as in the planning of wages, when wages of various qualifications are established, and so on.

The magnitude of the value of commodities produced and sold in a socialist economy is determined by the amount of socially necessary labour time spent on their production. By socially necessary labour-time is meant the average labour-time expended by the enterprises which produce the bulk of the output of a given industry. The socially necessary labour time expended in the production of a unit of a commodity determines the social value of the commodity. The time actually spent on the production of a unit of a commodity in individual enterprises is the individual labour time which forms the individual value of the commodity for each of these enterprises.

The socially necessary time spent on the production of a commodity is an objectively existing quantity. Under capitalism, socially necessary time is formed spontaneously, behind the backs of commodity producers. In the socialist economy, the state, proceeding from objective economic conditions and the requirements of the economic laws of socialism, plans an increase in labour productivity and a decrease in the cost of production, and establishes standards for the consumption of labour and materials for enterprises. In this way, it has a planned effect on the amount of socially necessary time spent on the production of a commodity in the direction of its decrease.

An important means of the planned influence of the socialist state on the amount of socially necessary time is the progressive norms of expenditure of labour and materials, which are established on the basis of the experience of advanced enterprises. Progressive norms are those that have yet to be achieved in production within the planned period of time. They are lower than the actual level of labour and material inputs per unit of production. Progressive norms are of great mobilizing significance, since they induce economic managers and the masses of working people to look for ways to rationalize production, introduce advanced technology, increase labour productivity, and reduce the cost of production. After the progressive norms have been assimilated by the majority of enterprises producing the largest mass of products, they begin to coincide with the socially necessary expenditure of labour and cease to be progressive. On the other hand, during this time, advanced enterprises achieve a new reduction in labour costs for the production of products. On the basis of the experience of advanced enterprises, new progressive norms of labour inputs are established, the implementation of which leads to a new reduction in socially necessary time.

Under capitalism the contradiction between individual and socially necessary labour-time has an antagonistic character. Enterprises that employ higher technology and make super-profits keep secret their technical improvements and beat their competitors, bringing them to ruin and ruin. In a socialist economy, the contradiction between socially necessary time and the individual time spent in individual enterprises is not antagonistic. The socialist economy knows no so-called "commercial secrets": the technical achievements of the advanced enterprises are rapidly becoming the property of all the enterprises in a given sector, as a result of which the development of the socialist economy as a whole is assured. All this accelerates technical progress and contributes to the rapid rise of the productive forces of socialist society.

## **The Nature of the Operation of the Law of Value under Socialism.**

Insofar as commodity production and commodity circulation exist under socialism, the law of value continues to operate.

The economic system of socialism places the operation of the law of value within strictly limited limits. The role of the law of value is limited to the socialisation of the means of production in town and country, the narrowing of the sphere of commodity production and commodity circulation, the operation of the economic laws of socialism and, above all, the law of the planned development of the national economy. The sphere of action of the law of value under socialism is also limited to annual and five-year plans and, in general, to the entire economic activity of the socialist state. For this reason, the law of value under socialism cannot play the role of a regulator of production.

If the law of value fulfilled the role of a regulator of production under socialism, then in a socialist society the most profitable branches and enterprises would first of all develop, and the enterprises of heavy industry, which are very important from the point of view of the interests of the national economy, and which may be temporarily unprofitable, would be closed. In the U.S.S.R., however, enterprises which are unprofitable or at first unprofitable, and which are necessary for the national economy, are by no means shut down, but are preserved and maintained, and measures are taken to make them profitable. A socialist state can compensate for the temporary unprofitability of some industries or enterprises at the expense of the income received by other industries and enterprises.

The socialist state builds enterprises and creates entire branches of production, guided not by the pursuit of profit, but by the requirements of the basic economic law of

socialism and the law of the planned development of the national economy.

Under socialism, the sphere of action of the law of value extends primarily to the circulation of commodities, to the exchange of commodities, chiefly articles of personal consumption. In this field, the law of value retains the role of regulator within certain limited limits.

The regulating action of the law of value in the sphere of commodity circulation is manifested in the fact that the state, in establishing a certain ratio of prices between various commodities of personal consumption, takes into account their value in terms of money, as well as the demand for and supply of these commodities. Ignoring the state of supply and demand would result in a sharp decline in demand for products for which prices were excessively high, and demand for goods with excessively low prices would be artificially inflated. The regulating role of the law of value is felt to the greatest extent in the kolkhoz market, where prices are formed on the basis of supply and demand, and the movement of prices affects the size and structure of the commodity turnover of the kolkhoz market. But the socialist state exerts an enormous economic influence on the collective-farm market, since the bulk of goods are sold in the system of state and cooperative trade at fixed planned prices.

The operation of the law of value is not limited to the sphere of commodity circulation. The law of value also exerts an influence on socialist production, and this influence is not decisive.

“The fact is that consumer products necessary to cover the cost of labour in the production process are produced in our country and sold as goods subject to the law of value. It is here that the influence of the law of value on production is revealed. In this regard, at our enterprises such issues as the question of economic accounting and profitability, the question of cost, the question of prices, etc. are of current

importance. Therefore, our enterprises cannot and should not do without taking into account the law of value".<sup>149</sup>

Items of personal consumption, which are commodities, have value. The value of industrial consumer goods includes the value of raw materials produced by the collective farms as commodities. Part of the newly created value of consumers' goods is used to reimburse the cost of money-wages, and the other part forms the income of the enterprise in the form of money. At the same time, in the process of production of industrial consumer goods, the instruments of labour, such as machines, machines, and factory buildings, which are not commodities, wear out. In so far as all the other elements which enter into the value of manufactured consumers' goods have the form of money, the instruments of labour must also be calculated in terms of money.

The action of the law of value on the production of the means of production is effected through the consumers' goods, which are necessary to replace the expenditure of labour-power. Consumers' products, being commodities, can be bought by the workers only with money, at the expense of money-wages. Hence the necessity, in the production of means of production, to employ the form of money in order to account for all the other elements which, together with wages, form the cost of industrial production.

If consumer products that are commodities have value, then means of production that are not commodities have the form of a commodity and value that is used for the purposes of calculation, accounting, and control.

In contrast to capitalism, where the law of value acts as a spontaneous force dominating people, in a socialist economy the operation of the law of value is recognised, taken into account, and used by the state in the practice of planning the national economy. Knowledge of the operation of the law of value and the ability to use it help economic managers to rationally direct production, systematically

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<sup>149</sup> J. V. Stalin, *Economic Problems of Socialism in the USSR*, p. 20.

improve methods of work, carry out economic calculations, and find and use hidden reserves to increase output.

The socialist state takes into account the law of value in its price planning. *In a socialist economy, price is the monetary expression of the value of a commodity, which is established in a planned manner. In planning the prices of the means of production produced in the public sector, only a form of value is used to account in money the social labour expended in their production. In fixing prices, the state proceeds from the social cost of production, which in the branches producing commodities represent the value of these commodities.*

The question of an economically sound approach to price planning is important for the development of the national economy.

“The problem of prices intersects all the main economic and, consequently, political problems of the Soviet state. Issues of establishing correct relationships between the peasantry and the working class, issues of ensuring mutually connected and mutually dependent development of agriculture and industry... issues of ensuring real wages, strengthening the chervonets... all this comes down to the problem of prices.”<sup>150</sup>

Taking into account the operation of the law of value is necessary to establish the correct correlation of prices for various commodities and the material stimulation of their production. It is impossible, for example, to set the same procurement price for a ton of cotton and a ton of grain, without taking into account the fact that the cost of cotton is much higher than the cost of grain. On the other hand, grain prices should not be set too low, as this would undermine the material interest of collective farms and collective farmers in

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<sup>150</sup> Resolution of the February Plenum of the Central Committee of the All-Union Communist Party (Bolsheviks), 1927, “The CPSU in the Resolutions and Decisions of the Congresses, Conferences and Plenums of the Central Committee,” Part II, ed. 7, p. 225.

grain production and would be detrimental to the development of grain farming.

For example, economically justified procurement prices for cotton, wool, beets, and other agricultural products have contributed to an increase in the production of these products. On the contrary, low procurement and purchase prices for potatoes, vegetables, milk, meat and grain slowed down their production. A significant increase in procurement and purchase prices for these products, made in 1953 by the decree of the Council of Ministers of the USSR and the Central Committee of the CPSU, was a very important stimulus for increasing their production.

However, the law of value is not a regulator of government prices, but only one of the factors affecting these prices. There is no “free play” of prices in state and cooperative trade. The socialist state sets the prices of commodities with certain deviations from the social costs of production, from the value of commodities. At the same time, it proceeds primarily from the requirements of the basic economic law of socialism, the need to ensure the continuous growth of production on the basis of higher technology and the satisfaction of the growing needs of the entire society. The state uses the mechanism of prices to establish such proportions in the distribution of funds among industries that are determined by the needs of the planned development of the national economy.

Thus, for example, the state, with the help of an appropriate price policy, uses part of the income generated in some industries for the rapid development of other industries, which are less profitable, but are of great economic importance. By setting low prices for the means of production, the state encourages the introduction of advanced technology in state industrial enterprises, and also equips collective farm production with high equipment through the MTS. The state sets prices on the basis of the

need to ensure a certain profitability (profitability) of enterprises, takes into account the quantity of certain goods and their importance in the economy. With the help of prices, it stimulates the production of certain products and regulates the demand for them. The Soviet state consistently pursues a policy of lowering the prices of consumer goods in the interests of improving the well-being of the people.

By virtue of all these limitations of the law of value, its operation under socialism is not accompanied by those destructive consequences in the form of crises, unemployment, and the destruction of the productive forces, which are the inevitable concomitants of this law under capitalism. It is precisely because of this, in spite of the continuous and rapid growth of socialist production, that the law of value does not lead to crises of overproduction in the USSR, whereas under capitalism the law of value, in spite of the low rates of growth of production in the capitalist countries, leads to periodic crises of overproduction.

## **Money and Its Functions in the Socialist Economy.**

In so far as commodity production and commodity circulation exist in socialist society, money is necessary. “Even before the socialist revolution, socialists wrote that money could not be abolished at once... It takes a great deal of technical and, what is much more difficult and much more important, organisational conquests to destroy money.” “In order to destroy them, it is necessary to organize the distribution of food for hundreds of millions of people, which is a matter of many years.”<sup>151</sup>

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<sup>151</sup> V.I. Lenin, On Deceiving the People with Slogans of Freedom and Equality. Speech at the First All-Russian Congress on Out-of-School Education, Works, vol. 20, pp. 329, 338.



Money belongs to those economic categories which, while retaining the old form, radically change their nature in relation to the needs of the development of the socialist economy. In contrast to capitalism, where money is transformed into capital and is a means of appropriating the unpaid labour of others, in a socialist economy money serves as an instrument of economic construction in the interests of the masses of the people, an economic instrument for planning the national economy, and a means of accounting and control over the production and circulation of commodities.

In a socialist economy, the content and purpose of the functions of money change radically as compared with the *functions* of money under capitalism.

Money primarily serves as a measure of *the value of commodities*, i.e., as a measure of the social labour embodied in it. In so far as the means of production, not being commodities, retain the form of commodities and values, money, in its function as a measure of value, also serves as a means of accounting for the social labour expended on the means of production. Under socialism, in the presence of two basic forms of socialist production, the results of the economic activity of the enterprise, the comparison of the results of the work of enterprises and branches producing various products, the volume of output of the branches of the national economy and the national economy as a whole can be expressed only in the form of money. As is well known, the function of a measure of value can only be performed by a monetary commodity, which itself has a value. Such a monetary commodity is gold. In the Soviet Union, as in other countries of the socialist camp, money has a gold content and is a measure of value.

Based on the fact that gold acts as the universal equivalent, the Soviet state during the monetary reform of 1922-1924. established the gold content of the ruble. In the future, the gold content of the ruble was fixed indirectly, by

setting the exchange rate of the Soviet ruble first in the franc, then in the dollar. In 1950, due to the growth of the purchasing power of the ruble and the decline in the purchasing power of the dollar and other capitalist currencies, the Soviet state directly set the gold content of the ruble at 0.222168 grams of gold. Accordingly, with the gold content of the ruble, the ruble exchange rate was increased against foreign currencies.

Whereas under capitalism the function of the measure of value, i.e., the accounting of social labour, is carried out behind the backs of commodity producers by means of spontaneous fluctuations in market prices, in a socialist economy money in its function as a measure of value is systematically used by the state as a means of accounting, calculation, for determining the profitability and unprofitability of enterprises, and so on.

The Soviet state uses monetary accounting as a means of planning and control over the course of production. For example, the comparison of the planned and actual cost of production makes it possible to find out the reasons for the excess of the actual cost over the planned one and to outline the measures necessary to reduce the cost and increase the profitability of the enterprise.

As a measure of value, money is used by the socialist state in price planning.

Money in a socialist economy is also the scale of prices. In the Soviet Union, *the scale of prices is the ruble*.

Under socialism, money fulfils the function of *a medium for the circulation* of commodities. As a medium of circulation, money functions in the purchase of goods for personal consumption by the population and in the sale of products by collective farms and collective farmers. Money, in its function as a medium of circulation, is used for the development of commodity turnover.

In a socialist economy, money performs the function of a means of payment. As a means of payment, money functions in the payment of wages to workers and employees, in the

receipt and repayment of loans by socialist enterprises, in the payment of taxes, and so on. For example, the bank issues funds to enterprises depending on their fulfilment of the production plan. By demanding timely repayment of loans, the bank stimulates the company to fulfil the plan, since without this it will not be able to accumulate the funds necessary to repay the loan, etc.

Under socialism, money fulfils the function of *a means of socialist accumulation and saving*. State-owned enterprises and collective farms keep money in banks. The monetary income and temporarily free funds of enterprises and organisations are used for the needs of socialist accumulation, for the expansion of production, for the formation of reserves, and for the service of the material and cultural needs of the population. As a result of the improvement in the well-being of workers, their savings increase. These savings are kept in savings banks.

In a socialist society, gold plays the role of *treasure and world money*. The gold reserve is mainly the state reserve fund of the world's money. Gold is a means of international settlements of the state in the field of foreign trade.

The stability of Soviet money is ensured not only by the gold reserves, but above all by the enormous quantity of commodities concentrated in the hands of the state and put into circulation at fixed planned prices. In no capitalist country is money so securely backed as in the Soviet country.

## BRIEF CONCLUSIONS

1. *The necessity of commodity production under socialism is conditioned by the existence of two basic forms of socialist production: state and kolkhoz. Commodity production and commodity circulation are limited mainly to*

*articles of personal consumption. Commodity production in socialist society is commodity production of a special kind, without private ownership of the means of production, without capitalists. It serves a socialist society.*

*2. In a socialist economy, a commodity has a use value created by concrete labour and a value created by abstract labour. Socialist society knows no contradiction between private and public labour. Socialist labour has a directly social character. In a socialist economy, the creation of use values and the improvement of the quality of products are of paramount importance. At the same time, there is a systematic reduction in the value of commodities on the basis of a systematic reduction in the socially necessary time spent on their production.*

*3. The scope of the law of value under socialism is limited. The law of value is not a regulator of production, but it acts on production through the consumers' goods necessary to cover the expenditure of labour-power in the process of production. The law of value is used in the process of planned management of the national economy. The operation of the law of value is taken into account in price planning.*

*4. In a socialist economy, money serves as an economic instrument that is used in the planning of the national economy and is used as an instrument of accounting and control over the production and circulation of goods. Money fulfils the following functions: measures of value, means of circulation, means of payment, means of socialist accumulation and saving. Soviet money is backed not only by gold reserves, but above all by a mass of goods concentrated in the hands of the state and sold at state planned prices.*

## CHAPTER XXXII: WAGES UNDER SOCIALISM

### Wages and the Economic Law of Labour Distribution.

Lenin taught that socialism presupposes “social labour under the strictest accounting, control and supervision by the organised vanguard, the advanced section of the working people; Moreover, both the measure of labour and its remuneration should be determined.”<sup>152</sup> Employees of state-owned enterprises receive this remuneration for their work in the form of wages.

Wages under socialism are fundamentally different from wages under capitalism. In view of the fact that labour-power has ceased to be a commodity in a socialist society, wages are not the price of labour-power. It does not express the relation between the exploiter and the exploited, but the relation between society as a whole, represented by the socialist state, and the individual worker working for himself, for his society.

Under capitalism, wages, being the price of labour-power, in contrast to the prices of other commodities, tend to deviate downwards from value and do not always enable the workers to satisfy their needs even within the limits of the extreme minimum. Under socialism, with the abolition of the system of wage labour, the law of the value of labour-power as a regulator of wages has completely lost its force. The basic economic law of socialism necessitates the *maximum* satisfaction of the ever-growing material and cultural needs of society as a whole. The emancipation of

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<sup>152</sup> V. I. Lenin, Report on Subbotniks at the Moscow Citywide Conference of the RCP (B), Works, vol. 30, p. 260.

wages from capitalist constraints makes it possible “to expand them to such a volume of consumption as is allowed, on the one hand, by the available productive power of society. which, on the other hand, requires the full development of individuality.”<sup>153</sup> As socialist production grows and improves, real wages *rise* steadily. The requirements of the basic economic law of socialism with regard to stimulating the rise of production and ensuring the growth of the well-being of the working people are carried out through the law of distribution according to labour. According to this law, the share of each worker in the social product is determined by the quantity and quality of labour of this worker.

Wages are one of the most important economic instruments by means of which in a socialist society the personal material interest of each worker in the results of his work is achieved: he who works more and better, receives more. Due to this, wages are a powerful factor in the growth of labour productivity, they make it possible to correctly combine the personal material interests of the worker with the state (nationwide) interests.

The existence of commodity production and the law of value under socialism necessitates *the form of money, wages*. As has already been said, the articles of consumption necessary to cover the expenditure of labour-power are produced and sold under socialism as commodities subject to the law of value. The monetary form of wages makes it possible to flexibly and differentially determine the worker's share in the social product depending on the results of his labour.

Thus, *wages under socialism* are the worker's share in that part of the social product, expressed in monetary form, which is paid by the state to workers and employees in accordance with the quantity and quality of labour of each worker.

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<sup>153</sup> K. Marx, *Capital*, vol. III, 1953. pp. 889 - 890.

The money wages received by each worker and employee are their *individual* wages. The source of the individual wages of the workers of socialist production is the product created by them for themselves, which is distributed according to labour. However, the standard of living of workers and office workers under socialism is determined not only by individual money wages. Individual wages are supplemented by large funds allocated by the state and public organisations for the social and cultural needs of the working people at the expense of the product created by labour for society.

In accordance with the requirements of the basic economic law of socialism and the law of distribution according to labour, the socialist state in any given period determines in a planned manner the wage fund and its level for the various categories of workers.

*The wage fund* is the entire amount of money systematically established by the state for the payment of labour for a given period of time (year, month, etc.) for the national economy as a whole, for individual branches and enterprises.

The State's wage policy is based on the principles of comprehensive wage differentiation. The socialist economic system is profoundly hostile to the equalisation of wages, which ignores the distinction between skilled and unskilled labour, heavy and light labour. Skilled labour, as labour of higher quality, requires the training of the worker and gives a greater production effect compared to unskilled labour. As a result, he is paid more than unskilled labour. Such a payment system stimulates the development of employees' skills. Within the limits of equal qualification, heavier labour is paid higher than less arduous labour, whereas under the capitalist system labourers engaged in particularly heavy manual labour are generally paid much less than other labourers. Thus, miners who receive low wages in capitalist countries

are paid high in socialist society, and hard physical labour is increasingly facilitated by the use of machinery.

In accordance with the economic necessity of the greatest encouragement of labour in the leading branches of the national economy, higher wages are established for workers in such branches of heavy industry as metallurgy, coal, oil, machine building, etc. Other things being equal, workers and engineers and technicians in enterprises and construction sites of economic regions that are of particular importance in the economic life of the country are also better paid, as well as remote and sparsely populated areas. Due to this, wages are one of the economic instruments for the planned distribution and redistribution of qualified labour force between enterprises and branches of social production in accordance with the requirements of the law of planned development of the national economy.

The policy of the socialist state in the sphere of wages is carried out in the struggle against petty-bourgeois equalisation of wages and against backward, anti-state, anti-mechanisation tendencies.

The economic law of distribution according to labour is contradicted by economic practice that does not consistently make a sharp differentiation in wages. In the absence of such differentiation, workers in skilled labour do not receive a clear advantage in pay compared to workers in simple labour, persons engaged in basic work related to the latest technology in comparison with persons engaged in auxiliary, manual work, production workers in heavy work, as opposed to workers in lighter jobs or in ordinary working conditions. The lack of proper differentiation leads to equalisation, hinders the introduction of new techniques and advanced methods of organizing production.

Violations of the correct wage ratios between workers, middle technical personnel and engineering personnel lead to the fact that the wages of engineering and technical workers at individual enterprises or in entire sectors of the economy are lower than the wages of skilled workers. Economically



unjustified wage increases in certain sectors and economic regions that are not leading in the national economy make it difficult to take incentive measures to pay industries and regions that occupy key positions in the country's economy.

*Trade unions* play an important role in wage policy. Trade unions take an active part in the work of state bodies in the preparation of measures in the field of labour organisation and remuneration, directly carry out social insurance, support the experience and initiative of industrial innovators, promote the development of socialist competition and increase labour productivity, and improve cultural and social services and working conditions for workers and employees. A collective agreement is concluded annually between the management and employees of each enterprise, with the active participation of trade unions. *The collective agreement* regulates all issues of work, wages and life of workers and employees. It obliges both sides to take the necessary measures to ensure the correct payment and continuous growth of labour productivity, as well as the ever more complete satisfaction of the growing cultural and living needs of the workers of socialist enterprises.

### **Forms of Wages. Tariff System.**

The various forms of wages under socialism are concrete ways of fulfilling the requirements of the economic law of distribution according to labour.

The basic form of remuneration for labour in state socialist enterprises is the piece-rate *form of wages*. In 1953, 77 per cent of all industrial workers in the USSR were paid on a piece-rate basis.

Under socialism, the piece-rate form of wages creates the greatest interest of the worker in the results of his labour. It is fundamentally different from the capitalist

piece-rate system, which is based on a monstrous intensification of labour and leads to an increase in the rate of surplus-value, and with the increase in the intensity of labour, the wages of the labourer falling.

In a socialist society, the amount of earnings of each worker is directly related to the quantity and quality of his labour. Piece-rate pay, which provides an increase in earnings as output per unit of time increases, stimulates an increase in labour productivity. Piece-rate pay encourages the full and rational use of machinery, equipment, raw materials, and working time, the introduction of technical improvements, and the best organisation of labour and production. Piece-rate pay contributes to the development of socialist competition, since high labour productivity also leads to high wages.

The most common is the *direct piece-rate* wage system. Under this system, each unit of products is paid at the same rate, regardless of the degree of fulfilment or overfulfilment of the established norm. The magnitude of the worker's wages increases in direct proportion to the increase in the number of products produced by him.

Under the *piece-rate progressive* wage system, the worker is paid for the fulfilment of the norm at one fixed rate, and for the work in excess of the norm at other, increased and progressively increasing rates. For example, in some enterprises of the automobile and tractor industries of the USSR, when a worker exceeds the established quota from 1 to 5 per cent, the piece-rate for the overfulfilled rate of output increases by 30 per cent, when the norm is exceeded from 6 to 10 per cent, it increases by 60 per cent, and so on, and for workers of other kinds of hard labour. The effectiveness of the piece-rate system is reduced when there is a multiplicity of pay scales, which makes it difficult to record and calculate wages, as well as to establish a direct and visual relationship between wages and labour productivity. The efficiency of the piece-rate system is also reduced in the presence of unreasonably sharp differences in prices for the overfulfilled part of the norm in different sectors of the economy.

Under the *piece-rate wage system*, *direct piece-rate* payment is supplemented by bonuses for certain indicators: for saving fuel, electricity, reducing the cost of production, reducing defects, for improving the grade of the product, etc.

In cases where, due to the conditions of production, it is impossible to apply individual piece-rate payment (for example, simultaneous maintenance of a large machine or unit by several workers), *brigade or group, piece-rate payment* is applied. Individual members of the team receive their share of the collective earnings, taking into account the hours worked by each worker and the qualifications of the employee.

The XVIII Conference of the C.P.S.U.(B.), stressing the need for consistent application of the principle of material encouragement for those who work well, decided: "It is necessary to completely eliminate the rotten practice of equalisation in the sphere of wages and to ensure that piece-work and the bonus system become to an even greater extent the most important levers in increasing the productivity of labour and, consequently, in the development of our entire national economy."<sup>154</sup>

*The time-based form of wages* is used in those jobs where piece-rate payment cannot be applied or the use of piece-rate payment is economically inexpedient due to the nature of the work (the work of a timekeeper, personnel for the security of the enterprise, work on the manufacture of unique devices, control and rejection work, etc.). There are simple time-based payment and time-premium payment.

A *simple time-based wage system* is differentiated, depending on the duration of work and the qualifications of the employee. In order to strengthen the material interest of employees who are paid on a time-based basis, a *time-bonus system of wages* is used in the results of their work.

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<sup>154</sup> Resolution of the XVIII Conference of the CPSU (b), 'The CPSU in the Resolutions and Decisions of Congresses, Conferences and Plenums of the Central Committee', part II, ed. 7, p. 975.

Under this system, in addition to the rate per unit of time worked, the worker is paid a bonus for certain quantitative or qualitative indicators: for reducing the time for repairing equipment, saving raw materials, fuel, electricity, trouble-free operation of mechanisms, reducing defects, etc.

The time-based bonus system of wages is widely used in relation to senior economic and engineering workers. The basis of the salary of this category of employees (directors of enterprises, chief engineers, shop managers, foremen, etc.) is their monthly salaries, which are differentiated depending on the size of the enterprise (shop, shift, etc.), its national economic significance, the employee's work experience, etc. In addition to the basic salary, managers and engineering and technical employees receive a certain percentage of the premium allowance for the fulfilment and over-fulfilment of the enterprise's production plan for marketable products, provided that the established gross output plan is fulfilled, the specified product range is observed, and the plan is fulfilled at the cost of production

The salaries of teachers, medical workers and employees of public institutions are also differentiated depending on the nature of their work, education, length of service and a number of other indicators.

Comprehensive differentiation of wages, taking into account the qualifications of the worker, labour productivity, and the quality of the products he produces, is carried out with the help of labour rationing and a certain tariff system.

*The rationing of labour* is the establishment of the time for the performance of a certain work (the standard of time) or the amount of output in pieces per unit of *time* (the *rate of output*). The correct rationing of labour is one of the most important conditions for managing the production process, improving the organisation of labour and increasing its productivity, overcoming the equalisation of wages, and developing socialist competition. Technical standards are needed in order to draw the lagging masses up to the front. Technical standards are a great regulating force that

organizes the broad masses of workers in production around the advanced elements of the working class.

Socialist methods of management require an orientation towards *progressive, technically grounded norms of production*, which are set at a level that is between those standards that have already been achieved in production by the bulk of workers and those achieved by the best innovative workers. In contrast to the capitalist norms of production, which are a means of unrestrained intensification of labour, which destroys the health of the workers and shortens their lives, the norms of production in socialist enterprises are set in such a way that they are progressive and at the same time quite feasible for the entire mass of workers.

The introduction of progressive production standards is carried out in a resolute struggle against conservative elements who defend outdated, understated standards that delay the growth of labour productivity and the successful implementation of plans. Such backward norms are, in particular, the so-called experimental-statistical norms, which do not take into account progress in technique and the organisation of production, are equal to the worker who has a poor command of technique, and legitimize the unproductive loss of labour time. Continuous improvement of technology requires periodic revision of production rates upwards. The interests of socialist society and the toiling masses require the introduction of progressive, technically grounded norms that fully correspond to the current level of production technology and are a powerful factor in the growth of labour productivity.

The evaluation of each type of work, based on the qualifications of the employee, the nature of the work, the conditions and characteristics of a given branch of production, is established on the basis of the tariff system. By means of the tariff system, the level of wages in various

branches of *the* national economy and for various categories of workers is determined.

The most important elements of the tariff system are the tariff scale, tariff and qualification reference books and the tariff rate.

Differentiation of wages depending on the qualifications of employees is established on *the basis of the wage scale*. According to their qualifications, workers are divided into several categories. A worker who does not possess qualifications belongs to the first category and his pay is taken as a unit. The higher the qualification of the worker, the higher the category he belongs to, the correspondingly higher his remuneration.

The production characteristics of the various jobs performed in a given industry are given in the *tariff and qualification reference books*, which serve as the basis for determining the qualifications of a worker and assigning him to a particular category in the wage scale.

*The wage rate* determines the amount of remuneration of an employee per unit of time in relation to various categories. Tariff rates allow the socialist state to establish differentiated wages for labour, taking into account the national economic importance of each branch, the degree of mechanisation of labour, the characteristics of certain economic regions, and so forth. Incorrect construction of wage scales and tariff rates, in which the differences in the wages of workers belonging to the lower and higher categories are insignificant, reduces the interest of workers in improving their qualifications and leads to equalisation and hinders the growth of labour productivity.

A properly constructed tariff system makes it possible to organize wages in such a way that they strengthen the decisive links of production and move people to higher qualifications.

## A Steady Rise in Real Wages Under Socialism.

Under the socialist system, in accordance with the requirements of the basic economic law of socialism, there is *an unparalleled increase in real wages*.

The most important economic basis for the growth of real wages is the continuous rise of socialist production on the basis of higher technology and the increase in labour productivity.

In order for a socialist society to live and develop, the increase in labour productivity must constantly *outpace* the growth of wages. Only under this condition can society have the necessary resources to expand production, increase reserves, and satisfy the growing needs of the working people more and more fully. If the continuous growth of labour productivity and social production is a stable basis for a further increase in real wages, then an increase in real wages leads to an increase in the purchasing power of the workers, which in turn serves as a constant engine of social production.

The continuous upsurge of socialist production leads to a systematic increase in the number of workers and office workers. The number of workers and office workers in the USSR increased from 10.8 million at the end of 1928 to 44.8 million at the end of 1953, or more than four-fold, with a significant increase in real wages. Under capitalism, the necessity of maintaining a reserve army of the unemployed places a heavy burden on working families and reduces the real wages of the entire working class. The absence of unemployment in a socialist society frees the working class and society as a whole from the need to maintain a reserve army of the unemployed. Growing production provides the opportunity for all able-bodied members of the family to work, which significantly increases its total income.

The working people of a socialist society are free from the enormous wage losses suffered by the working class in the capitalist countries due to various wage restrictions on the basis of sex, age, nationality and race.

For the first time in socialist society, the principle of equal pay for equal work, without distinction of sex, age, nationality, or race, was realised. Under socialism, child labour is prohibited. The real equality of women and men is ensured by equal wages, the granting of leave with pay to women during pregnancy, a wide network of maternity hospitals, nurseries and kindergartens, and the payment of State benefits to mothers with many children and single mothers. Any direct or indirect restriction of wage rights on the basis of a worker's race or nationality is punishable as a serious crime.

The steady rise in wages in socialist society is further conditioned by the growth of the cultural and technical level of the workers and the improvement of their qualifications. Under the capitalist system, with the development of industrial technics, large strata of skilled workers are displaced by machines and transferred to poorly paid unskilled work. At the same time, the workers, crippled by the capitalist intensification of labour, are pushed out of the sphere of production into the ranks of the unemployed and replaced by healthier and stronger workers. In a socialist society, the growth of production is based on rapid technological progress. The old professions of heavy manual labour are being replaced by new professions of skilled and higher-paid labour based on the latest technology. Encouraging long-term and irreproachable work in one and the same field of labour, the socialist state pays annually large sums of money as a reward for long service to workers in the metallurgical, coal, chemical industries, and other branches of the national economy, as well as to a number of categories of workers in culture and the state apparatus.



A major factor in the steady growth of real wages is the policy consistently pursued by the socialist state of lowering the prices of consumer goods. An increase in the purchasing power of money and a decrease in the prices of personal consumption in a socialist society are a constant factor in the improvement of the well-being of the working people.

The reduction of retail prices for consumer goods, carried out in the period from 1947 to 1954, led to a decrease in the general level of these prices by a factor of 2.3 and gave the population a gain of several hundred billion rubles. In the same years, owing to the rising cost of living in the capitalist countries, the cost-of-living index, according to official figures, rose by 21 per cent in the United States and by 40 per cent in England. Compared to pre-war times, the cost of living in the United States has risen by 189%, that is, almost threefold, and in England by 125%.

With the nationalisation of the land, the enormous tribute exacted from society by the owners of urban land in the form of ground rent under capitalism disappeared. In the budget of a working family in capitalist countries, rent, heating and lighting costs absorb about a quarter of the earnings. In socialist society, owing to the social ownership of land, the housing stock of cities and public utilities, rents, and other public services occupy a very small share in the budget of the working family. In the U.S.S.R. they average only 4 per cent, which is an essential condition for raising the level of real wages.

In the Soviet Union, the enormous scale of housing construction ensures a steady improvement in the living conditions of the working people. Between 1946 and 1953 alone, state-owned enterprises, institutions, and local councils, as well as the population of cities and workers' settlements, built and restored residential buildings with a total area of more than 183 million square meters with the

help of state credit. In addition, more than 4 million dwellings have been rehabilitated and built in rural areas.

The workers and employees of a socialist society are free from the heavy burden which the working masses of the capitalist countries are forced to bear in connection with the tax policy of the bourgeois states. In capitalist countries, high taxes drastically reduce the real wages of workers. In the U.S.S.R., workers and office workers spend only an insignificant part of their wages on taxes. Moreover, taxes are used for the needs of the national economy and for social and cultural events.

A very important supplement to individual money wages is the ever-increasing funds spent by the socialist state on social and cultural measures for the whole people.

In a socialist society, social insurance for workers and employees is compulsory and is carried out at the expense of the state, while in the capitalist world, social insurance exists only in a few countries, and workers are forced to pay a large part of the *insurance* premiums from their wages. In the first five-year plan the Soviet state spent 8.9 billion rubles on social insurance, in the second five-year plan 32.1 billion, in the fourth five-year plan 79.1 billion, and in the three years of the fifth five-year plan more than 66 billion rubles.

Workers and employees of the USSR are paid social security pensions at the expense of the state, are provided with free medical care, free or discounted vouchers to sanatoriums, rest homes, and children's institutions, free training and advanced training, and scholarships for students. All workers and employees receive at least two weeks of paid leave at the expense of the state, and workers in a number of professions receive long periods.

From 1940 to 1953, expenditures from the state budget of the USSR on social and cultural activities increased more than 3 times. State allocations for public education increased from

22.5 billion to 61.1 billion rubles, for public healthcare, including expenditures for these purposes at the expense of social insurance, from 11.2 billion to 28.7 billion rubles, for social security from 3.1 billion to 22.8 billion rubles; In addition, huge sums of money are spent on the payment of benefits to mothers with many children and single mothers; For example, in 1953 the state paid 4.5 billion rubles of such benefits. In 1953, the population of the USSR received 134 billion rubles from the state budget in connection with the increase in state expenditures on social and cultural measures and other expenditures aimed at ensuring the improvement of the material well-being of the working people.

Thus, at the expense of expenditures of the state and public organisations for social and cultural needs, many material and cultural needs of workers and employees are satisfied, which is an important factor in the steady growth of real wages. As a result, the real incomes of the workers and employees of the U.S.S.R. increase by about one-third over and above what they receive in the form of annual individual money wages.

The socialist State, concentrating in its hands all the levers that determine the material well-being of the working people, pursues a policy of systematically raising real wages. As early as 1930, the real wages of workers, including social insurance and deductions from the net income of enterprises (profits) to the fund for improving workers' living conditions, increased in relation to the level of 1913 to 167%. In 1953, the average monthly salary of all workers and employees of the USSR was 201 % by 1940. The level of retail prices in state, cooperative and collective farm trade, rent and all types of services were 122% in 1953 compared to the level of 1940. Thus, the real wages of all workers and employees of the USSR increased by 65% from 1940 to 1953, while taking into account the growth of state expenditures on cultural and social services for the population, all incomes of workers and employees increased by 89% during this period. The real

wages of workers and employees of the USSR in 1953 were about 6 times higher than before the revolution

A steady rise in real wages leads to an improvement in the nutrition of the working people of socialist society, to an increase in their consumption of industrial goods, and to an increase in their *savings*. In 1953, as compared with 1940, workers' deposits in savings banks increased more than fivefold. In a socialist society, where the right to work, to rest, and to material security in old age, as well as in the event of illness and disability, is guaranteed, the growth of savings is a direct indicator of the growth of the population's well-being.

"Our revolution," Stalin said, "is the only one which has not only broken the fetters of capitalism and given freedom to the people, but has also succeeded in providing the people with the material conditions for a prosperous life. That is the strength and invincibility of our revolution."<sup>155</sup>

## BRIEF CONCLUSIONS

*1. In a socialist society, wages are the worker's share in that part of the social product, expressed in monetary form, which is paid by the state in accordance with the quantity and quality of labour of each worker. Proceeding from the requirements of the basic economic law of socialism and the law of distribution according to labour, the socialist state in any given period systematically fixes the wages of the various categories of workers in such a way that, together with the growth of the national economy and the increase in the productivity of labour, the level of wages will systematically rise.*

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<sup>155</sup> J. V. Stalin, Speech at the First All-Union Meeting of Stakhanovites, "Questions of Leninism," ed. 11, 1952, p. 537.

2. Wages are the mighty engine of socialist production: they stimulate the improvement of the qualifications of the worker, the continuous improvement of technique, the improvement of the organisation of production, and the growth of the productivity of social labour.

Piece-work wages under socialism most fully combine the personal material interests of the worker with the interests of the national economy. In socialist society, the following systems of piece-work pay are used: direct piece-rate, piece-progressive, piece-bonus. Time-based wages depend on the duration of work and the qualifications of the worker. The work of time-based workers is rewarded with various types of bonuses.

3. The purpose of the tariff system in a socialist economy is to organise wages in such a way as to strengthen the decisive links of production and to encourage the improvement of qualifications. The socialist principles of economic management correspond to progressive, technically grounded norms. The policy of the socialist state in the sphere of wages is carried out in the struggle against petty-bourgeois egalitarianism on the basis of all-round differentiation of wages: higher wages for skilled labour, as well as for hard labour, for workers in the leading professions and branches of the national economy.

4. The basic economic law of socialism causes a steady rise in real wages. The most important factors in raising real wages are: the continuous growth of socialist production with the complete absence of unemployment; the systematic reduction of prices for consumer goods and the stability of Soviet money; increase in the cultural and technical level of workers and their qualifications; improving the living conditions of workers. The individual monetary wages of workers and employees are supplemented by large allocations by the state and public organisations for social and cultural activities, which is an important source of a

*steady increase in the standard of living of the working people.*

## CHAPTER XXXIII. ECONOMIC ACCOUNTING AND PROFITABILITY. COST AND PRICE

### Economy Mode.

The economic system of socialism is free from the contradictions of capitalism, which give rise to an enormous waste of material and labour resources. The socialist planned system of the national economy opens up the possibility of the greatest economy of the means of production and labour in comparison with all the methods of production that preceded it.

All kinds of diverse economy in society ultimately amount to the saving of working time, to the saving of living and past labour, that is, they mean an increase in the productivity of social labour. 'The less time it takes for a society to produce wheat, livestock, etc., Marx wrote, "the more time it gains for other production, material or spiritual. Both for the individual and for society, the fullness of its development, its consumption, and its activities depends on saving time."<sup>156</sup>

The saving of working time is one of the main factors that ensure the continuous growth of production in socialist society. Saving of working time is achieved by consistently observing the economy regime. *The regime of economy* is a method of socialist management aimed at achieving the best results at the lowest cost. The regime of economy requires a careful attitude to social property, a systematic reduction in the expenditure of living and objectified labour for the production of products, the improvement of technology, and the rational use of labour, material, and monetary resources. The observance of the regime of austerity is an indispensable

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<sup>156</sup> Archive of Marx and Engels, vol. IV, p. 119.

condition for the growth of socialist accumulation and the proper use of the accumulated funds. By promoting the preservation of social labour, the austerity regime serves as a powerful lever for the rise of socialist production.

In accordance with the basic economic law of socialism, the regime of economy is aimed at raising the material well-being and cultural level of the masses in every possible way. In contrast to the capitalist system, where the economy of production costs is achieved at the expense of the working people, by deteriorating their working conditions and intensifying exploitation, in the socialist system the economy regime serves the interests of the whole society, leads to the improvement of the condition of the working people, and is therefore a matter for the whole people. The implementation of the strictest regime of economy in all sections of the national economy and in all branches of administration constitutes one of the basic tasks of the economic and organisational activity of the socialist state.

The Communist Party and the Soviet state, proceeding from the objective necessity and the enormous possibilities of saving labour under socialism, are mobilising the masses for the struggle for economy, for every hour of expenditure of social labour, every piece of equipment, fuel, energy, and raw materials to yield ever greater productive results. This ensures a steady increase in the economy of social labour in the socialist economy.

## **Economic Accounting and Profitability of Enterprises.**

The austerity regime is carried out in all socialist enterprises. In the state socialist enterprises and in the cooperative artels, economic calculation is the most important means of carrying out the regime of economy.



Lenin pointed out that it is possible to build socialism and lead tens and tens of millions of people to communism “not through enthusiasm directly, but with the help of enthusiasm born of the great revolution, through personal interest, through personal interest, through economic calculation.”<sup>157</sup> *Economic calculation* is a method of planned economic management in socialist enterprises, which requires the measurement of costs and results of production in monetary terms, the reimbursement of expenses incurred by the enterprise by its own revenues, and the assurance of the profitability of production. The costs of the enterprise related to its economic activity are reimbursed from the funds received from the sale of its products by the enterprise at prices set by the state.

Economic calculation is a means of carrying out the requirements of the law of planned (proportional) development of the national economy. It is designed to ensure the fulfilment and overfulfilment of state plans with the least expenditure of labour and means of production.

Economic calculation is based on the use of the law of value. As has already been said, the costs and results of production, the incomes and expenditures of socialist enterprises are expressed and measured in the form of value and money. Economic accounting, using the monetary form, makes it possible to carry out calculation, accounting and control over the activities of enterprises. It reveals the profitability or loss of each individual enterprise. Economic calculation educates the heads of enterprises in the spirit of rational economic management, disciplines them, teaches them to accurately calculate production values, increase labour productivity, reduce the cost of production, and increase the profitability of production.

One of the requirements of economic accounting is to ensure the profitability of the enterprise. *Profitability of the*

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<sup>157</sup> V. I. Lenin, To the Four-Year Anniversary of the October Revolution, Works, vol. 33, p. 36.

enterprise means that the funds received by the enterprise from the sale of its products reimburse the cost and provide income in addition. Profitability characterizes the economic efficiency of an enterprise for a certain period of time. "The profitability of individual enterprises and branches of production is of great importance from the point of view of the development of our production. It must be taken into account both in construction planning and in production planning. This is the ABC of our economic activity at the present stage of development."<sup>158</sup>

Along with the profitability of individual enterprises and branches of production, the socialist economy achieves the highest profitability on the scale of the entire national economy, which is inaccessible to capitalism. This means that profitability is determined not from the point of view of individual enterprises or branches of production and not in the context of one year, but from the point of view of the entire national economy and in the context of a long period of time. The profitability of individual branches and enterprises is subordinate to the profitability of the national economy. Increasing the profitability of individual enterprises and entire branches of the economy contributes to accelerating the rate of development of the entire national economy.

In a socialist economy, along with profitable ones, there may be temporarily unprofitable and even unprofitable enterprises, but of great national economic significance. The socialist state supports these enterprises with state subsidies, taking measures to make them profitable.

Thus, during the war, a system of subsidies to cover losses in heavy industry was an inevitable measure. However, this system hindered the strengthening of economic accounting and weakened material incentives in the struggle to reduce production costs. Therefore, after the war, on January 1,

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<sup>158</sup> J. V. Stalin, *Economic Problems of Socialism in the USSR*, p. 56.

1949, the subsidy system was abolished. This was achieved due to an increase in labour productivity and a reduction in costs, as well as through a temporary increase in prices for the products of some sectors of heavy industry. Wholesale prices were brought into line with production costs. The abolition of subsidies contributed to the strengthening of economic accounting, stimulated savings in labour and material costs for the production of industrial products and created the necessary conditions for a subsequent reduction in wholesale prices.

Economic calculation expresses the relations between the socialist state and its enterprises, as well as the relations between individual socialist enterprises.

Economic calculation is based on a combination of *centralised management* of socialist enterprises by the state and the economic and operational *independence* of each enterprise. The economic and operational independence of the enterprise is expressed in the fact that it receives at its disposal the state means of production and has the opportunity to show broad initiative in the matter of their most rational use for the best fulfilment of planned tasks.

The socialist state distributes the means of production among its enterprises and assigns to each of them the material and monetary resources necessary to carry out plans. An enterprise, as a legally independent economic unit, enters into economic relations with other enterprises and organisations, recruits its personnel, and organizes its production, supply and sales activities. The enterprise has a current account with the State Bank for storing its funds, receives the right to use a bank loan and has an independent balance sheet.

The economic and operational independence of state enterprises is exercised within the framework of public ownership of the means of production: the socialist state remains the owner of the means of production transferred

for use to a certain enterprise. It systematically organizes the connection between individual enterprises, taking into account the role of each of them in the general system of the national economy. The relations between socialist enterprises are not relations of competition, as is the case under capitalism, but relations of cooperation in the fulfilment of the tasks of the whole people.

Economic calculation presupposes the *responsibility* of the enterprise and its managers to the state for the implementation of the plan and the rational use of resources.

The company is responsible for the timely and correct payment of wages to workers and employees. The company is responsible for the timely and full fulfilment of obligations on payments to the state budget, for the correct use of budget funds and bank loans.

Economic accounting also presupposes *the material responsibility* of the enterprise to other enterprises and economic organisations for the fulfilment of its obligations.

Economic relations between enterprises are regulated by means of economic contracts. In accordance with the national plan, enterprises acquire the means of production they need and sell their products under *contracts*.

The contract determines: terms of delivery, volume, assortment, quality of products, terms of delivery, price, terms and procedure of payment, forms and amount of liability for violation of the terms of the contract. The contract establishes material sanctions: penalties for non-fulfilment of the contract, penalties for violation of delivery terms, fines for violation of product quality.

Strict observance of contractual discipline by enterprises is one of the most important requirements of economic accounting.

Economic calculation is based on the material interest of the enterprise, the entire team of employees and management personnel in the implementation of the plan, in

the continuous and rapid growth of production, in economical and rational management, in ensuring the profitability of the enterprise.

The material interest of the enterprise and its employees in the fulfilment of the plan, in the increase in production is ensured primarily by the fact that the enterprise receives funds depending on the results of its economic activity. Further, a part of the income (profit) remains at the disposal of the enterprise, which is used to replenish working capital, to make capital investments, and to improve the cultural and living conditions of workers and employees.

Economic calculation requires the full use of the economic law of distribution according to labour. Distribution according to labour creates a personal material interest in increasing the productivity of labour, in saving resources, and leads to the strengthening of economic calculation. In turn, economic calculation contributes to the consistent implementation of the law of distribution according to labour and to the improvement of the well-being of the working people. The higher the income of the enterprise, the more opportunities it has to encourage its employees by improving their financial situation and cultural and living conditions. The more developed the economic accounting, the more widely the awarding of bonuses for saving resources is used.

Economic accounting requires constant control by the ruble over the activities of the enterprise and its individual parts. *Control in the ruble* is as follows: through the monetary indicators of the company's economic activity (cost, profitability, etc.), the quality of its work is revealed; The receipt of funds by the enterprise depends on the quality of work, on the degree of fulfilment of the plan; Enterprises are required to timely pay money for mandatory payments (repayment of loans to the bank, contributions to the budget, etc.) regardless of the fulfilment of general planned tasks; Enterprises are obliged to make timely settlements with other enterprises (suppliers or buyers) in accordance

with the contracts concluded between them. Control of the work of enterprises in rubles is carried out by economic organisations, financial bodies, and the banking system. Mutual control in the ruble is carried out by enterprises bound by economic contracts. Within the enterprise, control in the ruble is carried out by accounting and comparing in monetary form the costs and results of production.

The rational organisation of socialist production in enterprises requires the application of elements of economic calculation in the workshops and production sections of the enterprise. A shop or a site are parts of an enterprise that have a certain independence in terms of production and technology, but they do not have the economic and operational independence inherent in an enterprise. Therefore, economic calculation is applied here only to a limited extent. The elements of economic calculation in workshops, at production sites are: accounting for costs in monetary form, comparing these costs with planned tasks, material incentives for employees who have achieved the best results in the field of resource saving.

The company's cash flow is carried out on the basis of *financial plans*, which determine the sources of income and the direction of the company's expenses.

Consistent economic calculations, which increase the material interest of the enterprise and its workers in the results of production and in the fulfilment of the plan, promote the growth of production activity and the socialist competition of the masses for the full and rational use of resources and for thrifty and prudent economic management. Economic calculation is aimed at a steady improvement in the use of all the funds at the disposal of enterprises.

## Enterprise Funds. Fixed and Revolving Assets.

The funds allocated to the state enterprises, both material and monetary, which are the property of the whole people, form its *funds*.

Although the means of production of state enterprises in the U.S.S.R., as has been shown, are not essentially commodities, they nevertheless retain the form of commodities. The means of production in state-owned enterprises are not only in kind, but also in monetary form. Hence the need to use such categories as cost, cost, and price of means of production for the purposes of calculation and calculation, for self-financing.

The means of production constitute the production assets of the enterprise. The production assets of the enterprise carry out a continuous turnover in a planned manner, successively pass through the stage of production and the stage of circulation. In accordance with this, they change their form: the money form passes into the productive form, the productive form into the commodity form, the commodity form into the money form, etc. Depending on the nature of the turnover, the production assets of the enterprise are divided into fixed and circulating assets.

*Fixed assets* serve production for a long time, while maintaining their natural form. The value of fixed assets enters into the costs of production gradually, in parts, as these assets wear out. *Circulating assets* are wholly consumed in the production process during one period of production, and their value is fully included in the cost of production of the commodity.

The main production assets of the enterprise include means of labour: industrial buildings, structures, machines, tools and implements of durable use, vehicles. Fixed assets represent the productive apparatus of socialist society. The

volume and degree of use of fixed assets is an important factor in determining the size of production.

The socialist economic system ensures the continuous growth of fixed assets and makes it possible to use them much better than capitalism.

Fixed assets of industry are used in the USSR about 2 times more efficiently than in bourgeois countries. In the black metallurgy enterprises of the USSR, the efficiency of using blast furnaces already in 1940 was almost 2 times higher than the level of their use in 1913. In 1953, the use of blast furnaces increased by 38% compared to 1940. and open-hearth furnaces—by 43%.

To replace depreciating fixed assets, the company has a depreciation fund. It is formed by including in the cost of production of each unit of production a certain part of the cost of fixed assets, corresponding to their *depreciation*. Part of the depreciation fund of enterprises in the amount determined by the state is used in a planned manner to replace retired fixed assets, and the other part remains at the disposal of the enterprise to be spent on the overhaul of existing fixed assets.

The company's circulating production assets include: raw materials, materials, fuel, semi-finished products and other labour items. In addition to the funds in the sphere of production, enterprises have at their disposal funds operating in the sphere of circulation, or funds of circulation. *Circulation* funds consist of ready-to-sell products and funds of the enterprise necessary for the purchase of raw materials, fuel, for the payment of wages, etc. Production circulating funds and circulation funds in their aggregate constitute the *working capital of the enterprise*.

An important factor in increasing the degree of use of fixed and circulating assets is the establishment by the state of *progressive technical and economic standards for the use*



of machinery and equipment, norms for the consumption of raw materials, fuel and other elements of circulating assets per unit of finished products (iron ore and coke per ton of pig iron, sugar output per ton of beets, etc.) and *stock rates* for elements of working capital. including finished products.

The company's working capital is divided into own and borrowed. The formation of own and borrowed working capital is carried out in a planned manner.

Own working capital is allocated to the enterprise by the state. in the amount of the minimum of its needs. Additional or temporary need of the enterprise for working capital associated, for example, with the need to form seasonal reserves of raw materials, fuel, with the presence of goods in transit, is covered by loans - loans of the State Bank, for the use of which the State Bank charges a certain fee - a percentage. Such a procedure for allocating working capital encourages the most rational and economical use of them by the enterprise, speeding up their turnover.

Accelerating the turnover of working capital is of great importance in implementing the economy regime and freeing up additional resources to increase production.

*The speed of turnover* of the enterprise's funds depends, firstly, on the time of production, i.e., on the duration of the production cycle, and, secondly, on the time during which these funds are in circulation (in the form of stocks of ready-to-sell products, etc.).

The reduction of the production cycle is achieved by accelerating production processes based on the use of advanced equipment and technology, the use of the latest scientific achievements in production, and the improvement of labour organisation. The time of circulation of circulating assets is reduced by improving the work of transport, more rational organisation of the supply of enterprises and the sale of their products.

The speed of turnover is one of the main indicators of the quality of the company's economic activity. Acceleration of the turnover of funds is an important factor for the company to fulfil the production plan and increase savings. It ensures the execution of the plan with a smaller amount of working capital.

Socialist emulation is of great importance in strengthening economic calculation and accelerating the turnover of circulating assets. As a result of shortening the production cycle, improving the supply and marketing of enterprises, and strengthening financial discipline, the use of working capital of state-owned enterprises is significantly improved.

In addition to production and circulation funds, enterprises also have fixed assets for consumer purposes - residential buildings, clubs and other public and cultural buildings with their equipment.

The economical and efficient use of fixed and circulating assets by socialist enterprises makes it possible to increase the volume of output and reduce its cost.

## **Cost of Production.**

In socialist society, all the expenditures of social labour for the production of a particular product are the social costs of production. The social cost of producing commodities constitutes the value of these commodities. The cost of production of the means of production is also measured in the form of value, in the form of money. The social cost of production consists of the following three parts: the value of the means of production expended, the value of the product created by labour for itself, and the value of the product created by labour for society.

The first two parts of the social costs of production form the prime cost of production in state socialist

enterprises. *The cost of production* is that part of the social cost of production, expressed in the form of money, which replaces the costs of the enterprise for the expended means of production and wages. Cost, therefore, reflects the past labour embodied in the expended means of production and the newly expended labour which creates a product for itself. The cost price shows how much it costs a given enterprise to manufacture and sell products. Cost accounting is the most important condition for economic accounting.

The category of the cost of production of socialist enterprises must not be confused with the category of capitalist cost of production, which expresses the expenditure of capital. If the economy of capitalist costs of production is realised through the predatory use of labour power and the intensification of exploitation, then the reduction of the cost of production under socialism expresses the saving of social labour in the interests of society as a whole.

In practice, in accordance with the requirements of economic accounting, the cost of production is made up of the costs of raw materials, fuel, electricity used in production, depreciation charges, wages of workers and employees with accruals on it, and various monetary expenses for administrative and management needs. The wage accruals of enterprises are the monetary expression of the part of the product for society, which is placed at the disposal of the social insurance authorities.

There are two types of industrial production costs: factory production costs and total (so-called commercial) production costs. Factory cost includes the company's expenses related to the production of products. The total cost price consists of the factory cost price and the costs associated with the sale of products (maintenance of sales offices, bases, payment for transport and administrative expenses of trusts, combines).

In 1953, about  $\frac{3}{4}$  of the cost of industrial production in the USSR accounted for material costs (costs of raw materials, fuel, electricity, depreciation, etc.) and about  $\frac{1}{4}$  for wages.

The cost of production is the most important general indicator of the quality of the entire work of the enterprise. The cost of production reflects all production, supply, and sales activities of the enterprise. The lower the cost, provided that the plan for the production of products is fulfilled and the proper quality of products is ensured, the higher the level of economic activity of the enterprise. The state systematically sets targets for reducing the cost of production, based on progressive norms of labour inputs and the use of means of production.

The cost of production decreases as a result of an increase in labour productivity, rational use of fixed and circulating assets, acceleration of the turnover of funds and reduction of costs for the maintenance of the management apparatus. The active participation of the masses in the implementation of the austerity regime is of great importance for reducing the cost of production. The reduction of production costs means the saving of living and past labour, it leads to an increase in accumulation and is one of the central tasks of socialist economy.

The prime cost of production of the state industry of the USSR is systematically reduced. Thus, the cost of production decreased compared to the previous year: in 1948-by 8.6%, in 1949-by 7, in 1950-by more than 5, in 1951 - also by more than 5%. In 1952, the reduction in production costs, taking into account the reduction in prices for raw materials, fuel and tariffs for electric and thermal energy and freight transportation, was more than 8%, and in 1953-more than 5%.

## **Net Income of a State-Owned Enterprise. Centralised Net Income of the State.**

The product created by the labour of the workers of socialist production for society constitutes the net income of society. In the public sector, *all net income* appears in the form of money and is the difference between the social cost of production of the product or the value of the commodity and its cost of production. Net income in the public sector is public property and takes two main forms: the net income of the state-owned enterprise and the centralised net income of the state.

*The net income of a state enterprise* is that part of the product created by labour for society which remains in the enterprise and accumulates in the form of money. *The centralised net income* of the state is that part of the product created by labour for society which is taken from enterprises and concentrated in the form of money in the hands of the state for use for the needs of the whole people.

The necessity of these two forms of net income is conditioned, on the one hand, by the system of economic calculation, and, on the other, by the need of socialist economy for the centralisation of a considerable part of net income. In this way, the socialist state ensures that the workers are interested in increasing the profitability of each enterprise individually and satisfying the needs of society as a whole.

In economic parlance, the net income of state-owned enterprises is called “profit.” In socialist society, however, the conditions for the existence of the economic category of profit have completely disappeared, since profit expresses the relations of capitalist exploitation. In view of this, the net income of a state-owned enterprise is not essentially profit. The net income of a state-owned enterprise is the difference between the monetary proceeds for the products sold by this enterprise at the prices set for it by the state, on

the one hand, and the cost of these products, on the other hand. The amount of the company's net income depends on the degree of fulfilment of the production and sales plans, on the implementation of the cost reduction plan. The cost of production and the net income of the enterprise are closely interrelated: the reduction of the cost leads to an increase in the net income of the enterprise.

The net income of enterprises is used by the state in a planned manner: part of it is directed to the expansion of production in a given enterprise or in a given industry (for capital investments and an increase in its own working capital), the other part forms the *director's fund* for material incentives for employees of the enterprise and for other needs. The part of the company's net income that remains beyond the coverage of these needs is withdrawn to the state budget in the form of so-called deductions from profits.

The director's fund is allocated from 1 to 5% of the planned amount of net income of the enterprise, depending on the value of individual industries, the number of employees and the amount of net income. To encourage over-fulfilment of the plan for accumulating net income, it is established that from 15 to 45% of the amount of income received in excess of the plan is deducted to the director's fund.

These deductions can be made subject to the fulfilment by the enterprise of the state plan for the production of marketable products in the established assortment, the fulfilment of the task to reduce the cost and the plan for the accumulation of net income. Half of the funds of the director's fund are directed to the maintenance of children's institutions, to the equipment of rest homes, sanatoriums, canteens, clubs, to the purchase of vouchers to rest homes and sanatoriums, to the issuance of individual bonuses to workers, engineering and technical workers and employees, as well as to provide them with one-time assistance, and the other half - to expand production, to build and repair the housing stock of the enterprise.

The net income of enterprises is steadily increasing as a result of a constant and rapid increase in production, an increase in labour productivity and a decrease in production costs. The total amount of net income (profit) of enterprises and economic organisations of the USSR in 1932 was 6.6 billion rubles, in 1940 - 31.8 billion, and in 1953 - 89.8 billion rubles.

The amount of net income of a state-owned enterprise directly depends on the work of the enterprise itself, on how much it reduces the cost of a unit of production and how it fulfils the plan for the production and sale of products. The growth of the company's net income makes it possible to increase the amount of deductions to the director's fund, ensures an increase in working capital and capital investments. Consequently, the net income of a state-owned enterprise is inextricably linked with economic calculation and serves as a direct stimulus for improving the quality of the enterprise's work.

The socialist state plans the level of net income of enterprises and sets the rate (level) of profitability for individual goods and enterprises. *The* rate of profitability of an enterprise is the ratio of the amount of net income of the enterprise to the total cost of products sold, expressed as a percentage.

The rate of profitability of a socialist enterprise is fundamentally different from the rate of profit under capitalism. In a socialist economy, the law of the average rate of profit and the price of production does not apply. The rate of profitability here is determined by the state not in the order of equalisation of net income between enterprises, but on the basis of the specific conditions of the enterprise's work, taking into account its interest in obtaining net income, on the one hand, and ensuring control over the activities of the enterprise in rubles, on the other. For this purpose, the enterprise is established such a rate of profitability that does not allow excessive accumulation of funds in it and constantly encourages it to strengthen

economic calculation and reduce the cost of production. Since net income is an integral part of price, an excessive increase in the rate of return can be an obstacle to lower prices. Thus, in accordance with the principles of economic calculation, each state-owned enterprise is interested in obtaining net income, and this circumstance stimulates the development of production and the reduction of the cost of production.

The main part of the state's centralised net income is currently in the form of the so-called "turnover tax". The value added tax does not go to the companies, but immediately after the sale of the products, it goes entirely to the state budget. Value added tax is included in the wholesale price at a predetermined rate by the state. In view of this, unlike the net income of enterprises, the amount of turnover tax established for a given period, attributable to a unit of production, does not directly depend on the fulfilment of the cost plan by the enterprise.

Although a portion of the centralised net income of the state is called a "turnover tax," it is not in its nature a tax or any deduction from the income of the workers. Thus, the size of wages is determined by the socialist state on the basis of the need for a systematic increase in their real level, taking into account the prices of consumer goods, including the turnover tax.

In the process of distribution, part of the net income of state-owned enterprises is transferred to the centralised net income of the state in the form of deductions from profits, accruals on wages for the needs of social insurance, etc. In addition, part of the net income of cooperative-kolkhoz enterprises goes to the centralised net income of the state.



## The Price of Industrial Products.

The cost of production, the net income of the enterprise and a part of the centralised net income of the state in the form of the so-called turnover tax are included in the prices of industrial products.

In the state industry of the USSR there are two main types of prices: the factory price (the so-called enterprise price) and the wholesale price of industry. *The factory price* of industrial products is equal to the planned cost of production plus the net income of the enterprise. In this way, the factory price provides the enterprise with the reimbursement of its planned costs and the receipt of net income.

*The wholesale price* of industry includes the factory price and that part of the centralised net income of the state which appears as a “turnover tax.”

The net income of society is created in all branches of production. However, the turnover tax is received by the state through the price mechanism mainly from the branches of the economy that produce consumer goods. As a rule, the prices of the products of the industries that produce the means of production do not contain a turnover tax. Part of the net income generated by heavy industry is realised in light industry and other sectors that produce consumer goods. This ensures a relatively low level of prices for the means of production used both in industry and in agriculture, contributes to the acceleration of the rate of mechanisation of production and ultimately leads to an increase in production and a decrease in the cost of consumer goods.

The socialist state consistently pursues a policy of systematically reducing the cost of industrial production and, on this basis, lowering the prices of industrial goods.

The decline in wholesale prices for industrial products leads to increased control by the ruble over the work of enterprises. By lowering wholesale prices, the state thereby

forces the heads of enterprises to reduce costs in order to ensure the profitability of production, improve the organisation of labour, and identify and use the reserves hidden in the economy. Thus, the reduction of wholesale prices strengthens economic calculation, strengthens the economy regime, and creates a material basis for the reduction of retail prices.

## BRIEF CONCLUSIONS

1. Socialism ensures the economy of all productive resources, which is inaccessible to capitalism, which in *the final analysis amounts to a steadily increasing economy of labour time, i.e., of living and past labour. The regime of economy is a method of socialist economic management, which consists in a careful attitude towards social property, the rational use of labour, material and monetary resources, and the elimination of mismanagement.*

2. *Economic calculation is a method of planned economic management in state socialist enterprises, which requires the measurement of costs and results of production in monetary terms, the reimbursement of expenditures incurred by one's own revenues, and the assurance of the profitability of production. Economic calculation presupposes the economic and operational independence of the enterprise, responsibility for the economical use of the funds at its disposal and material interest in the best results of work.*

3. *The production assets of the state socialist enterprises shall be divided into fixed and circulating. Working capital and funds in circulation constitute the working capital of the enterprise. The socialist economic system makes it possible to make the fullest and most expedient use of fixed assets and circulating assets.*

4. *The cost of production is that part of the social costs of production, expressed in the form of money, which replaces the costs of the enterprise for the means of production and wages. The cost of production is the most important indicator of the quality of the enterprise's work. The price of industrial products is set by the state and is used by it to strengthen economic calculation. The systematic reduction of production costs and prices is one of the basic principles of socialist economic management, stemming from the requirements of the basic economic law of socialism.*

5. *The product of labour for society is the net income of socialist society. Net income in the public productive sector comes in two main forms: in the form of the net income of the state-owned enterprise and in the form of the centralised net income of the state. The net income of a state-owned enterprise is a portion of the product created by labour for society, which remains in the enterprise and accumulates in the form of money. Centralised Net Income of the State It is a real expression of that part of the product created by labour for society, which is taken from enterprises and concentrated in the hands of the state for use for the general needs of the people. Such a division of the net income of society is conditioned by the necessity, on the one hand, of economic calculation, and on the other hand, of the centralised use of a significant part of the net income of society.*

## CHAPTER XXXIV. THE SOCIALIST SYSTEM OF AGRICULTURE

### **The Place and Role of Socialist Agriculture in the National Economy.**

The socialist system of agriculture is based on state (nationwide) and cooperative-kolkhoz ownership of the means of production. It includes collective farms, machine and tractor stations, and state farms.

Socialist agriculture plays an important role in the fulfilment of the main task to which socialist production is subordinated, namely, to ensure the maximum satisfaction of the constantly growing material and cultural needs of the whole of society. It is a food base for supplying the population with foodstuffs and a *raw material base* for the light and *food* industries that produce consumer goods.

Industry is the leading principle in relation to agriculture, and agriculture supplies the industry with raw materials and food. "Socialist society is a producer-consumer association of workers in industry and agriculture. If, in this co-operative, industry is not linked with agriculture, which supplies raw materials and foodstuffs and absorbs the products of industry, if industry and agriculture do not thus form a single national economic whole, then no socialism will come out of it."<sup>159</sup>

Large-scale, highly mechanised agriculture depends to an enormous extent on industry, which produces tractors, combines, and other agricultural machinery, spare parts for

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<sup>159</sup> J. V. Stalin, Questions and Answers, Works, vol. 7, p. 200.

them, fuel, mineral fertilizers, chemicals for the control of pests of agricultural crops, etc. The steady rise of socialist agriculture can be assured only on the basis of a rapid increase in the production of the means of production supplied for agriculture by socialist industry.

At the same time, the development of industry and other branches of the national economy depends on a continuous, rapid rise in agricultural production. Improving the well-being of the people and increasing the urban population require an increase in the production of grain, meat, milk, potatoes, vegetables and other agricultural products. The expansion of the output of industrial goods is possible only on the basis of the increasing production of agricultural raw materials for the light and food industries: cotton, flax, wool, sugar beets, oilseeds, and so on.

The socialist system of agriculture ensures a continuous increase in the productivity of agricultural production and an increase in its marketability. Labour productivity in socialist agriculture is three times higher than labour productivity in pre-revolutionary agriculture, which testifies to the great advantages of kolkhoz and sovkhoz production.

From 1926-27 to 1952-53 the marketable output of agriculture increased from 10.3 million to 40.4 million tons of grain, from 3 million to 12.5 million tons of potatoes, from 2.4 million to 5 million tons of meat (live weight), and from 4.3 million to 13.2 million tons of milk. Major successes have been achieved in the production of cotton, sugar beets, and some other industrial crops.

The level of agricultural production achieved in the USSR does not yet satisfy the population's ever-growing needs for foodstuffs and light industry—for agricultural raw materials. This level does not correspond to the high technical equipment of agriculture and the possibilities inherent in the socialist system of agriculture.

The Communist Party and the Soviet state consistently pursued a policy of the all-round development of heavy industry as a necessary condition for the successful development of all branches of the national economy. For the solution of this primary national economic task, the main funds and the best personnel were directed. At the same time, it was not possible to ensure the simultaneous development of both heavy industry and agriculture at a high rate. As a result, there is a certain discrepancy between industry and agriculture. Agriculture has lagged behind industry. Grain farming, animal husbandry, potato and vegetable production have lagged especially far behind.

The great successes achieved in the development of heavy industry enabled the Communist Party and the Soviet government in 1953-1954 to embark on a broad program of a steep rise in all branches of agricultural production.

"The most urgent and most important task of the national economy at this stage is to develop heavy industry in every possible way, to achieve a steep rise in all branches of agriculture and, within two or three years, to dramatically increase the provision of food products to the entire population of our country and, at the same time, to ensure a higher level of material well-being for the entire mass of the collective farm peasantry."<sup>160</sup>

In order to meet all the needs of the population for a variety of foodstuffs and to develop the various branches of light industry on a large scale, it is necessary not only to rapidly increase agricultural production as a whole, but also to improve its structure (an increase in the proportion of animal husbandry, high-value crops, and so on).

In this regard, it is especially important to increase grain production. Grain farming is the basis of all agricultural production. In order to solve the problem of animal

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<sup>160</sup> N. S. Khrushchev, On Measures for the Further Development of Agriculture in the USSR. Report to the Plenum of the Central Committee of the CPSU on September 3, 1953, pp. 3-4.

husbandry in the shortest possible time, it is necessary to provide all livestock with grain fodder: corn, barley, oats. The expansion of the production of cotton, flax, sugar beets, sunflowers, and other industrial crops requires the provision of bread to the people engaged in the production of these crops. Thus, the development of all branches of agriculture in one way or another depends on the rise of grain production.

Achieving a high level of agricultural production presupposes the comprehensive development of animal husbandry, which plays a huge role in increasing national consumption. The higher the well-being of the people becomes, the greater the place in consumption of meat, fats, milk and dairy products. Therefore, the rapid recovery of livestock production is vital for improving consumption patterns. The main way to solve the problem of animal husbandry has been and remains the path of the rise of socialised kolkhoz and sovkhoz animal husbandry: the creation of a solid fodder base, the provision of livestock with good cattle yards, the widespread mechanisation of work in animal husbandry, the qualitative improvement of livestock, the breeding of new highly productive breeds of farm animals in order to increase the number of livestock on this basis and at the same time sharply increase its productivity.

The all-round satisfaction of the population's food needs and the improvement of the nutritional structure require the further development of all other branches of agriculture: potato-growing, vegetable growing, horticulture, viticulture, and so on.

One of the most important conditions for the development of all branches of agricultural production is the fullest *and most comprehensive use of land as the* main means of production in agriculture. Under the dominance of private ownership of land, the peasant saves money for years and goes into debt to buy a piece of land. Collective farms

and state farms based on nationalised land are relieved of the need to spend unproductive funds on the purchase and lease of land. The land occupied by the collective farms is assigned to them for free and indefinite use. In fact, the collective farms dispose of this land as their own property, with the only restriction that they cannot sell or lease it. Public. Ownership of land is an important factor in reducing the cost of agricultural production and steadily improving the material conditions of the Soviet peasantry.

In pre-revolutionary Russia, the poor and middle peasants had about 135 million hectares of agricultural land. As a result of the October Socialist Revolution and the victory of the collective-farm system, the collective-farm peasantry already in 1937 had over 370 million hectares of agricultural land in their use, that is, almost three times as much. At present, taking into account the collective farms of the western regions of the Ukrainian SSR and the Byelorussian SSR, the western regions of the Moldavian SSR and the Baltic Soviet republics, the collective farm peasantry has its own use .397 million hectares of agricultural land, and in total, taking into account forests and other land not yet used for agriculture, collective farms are assigned 578 million hectares of land for permanent use. In addition, collective farms have free long-term use of 180 million hectares of the State land fund and the State forest fund, of which 66 million hectares are agricultural land.

State farms have about 70 million hectares of agricultural land, subsidiary farms of enterprises and institutions and other land users - more than 19 million hectares of land.

Kolkhozes and sovkhozes have huge reserves of unused *fertile virgin and fallow* lands. The development of these lands makes it possible to significantly increase the production of agricultural products in the shortest possible time.

The national economic need to increase the production of grain and other agricultural products required the implementation of large-scale national work for the fullest



development of the country's land resources. In accordance with the decisions of the February-March Plenum of the Central Committee of the CPSU (1954) "On the Further Increase of Grain Production in the Country and on the Development of Virgin and Fallow Lands" and subsequent decisions of the Communist Party and the Soviet state adopted a grandiose program for the development of virgin and fallow lands, mainly in the eastern regions of the country, so that the sown area of grain and other agricultural crops on the newly developed lands would reach 1956-28 million hectares in 30. The successful fulfilment of this national task made it possible as early as 1954 to develop about 15 million hectares of highly fertile virgin and fallow lands in collective farms and state farms.

The large tracts of land assigned to each kolkhoz and sovkhoz make it possible to make the most productive use of tractors, combines, and other complex agricultural machinery, to introduce regular crop rotations, to carry out land management work, to construct irrigation and drainage canals, to carry out afforestation, and so on. The socialist system opens up all the possibilities for the creation of a rational system of agriculture that will ensure a systematic increase in soil fertility and the highest productivity of agricultural production.

A rational system of agriculture presupposes its intensification. *Intensification* of agriculture means additional investment of means of production on a given land area and improvement of farming methods in order to obtain the maximum amount of production from each hectare of agricultural land. Intensification involves the use of artificial and organic fertilizers, the breeding of highly productive breeds of livestock, the introduction of the latest achievements of agronomic and zootechnical science into production, etc. The creation of an abundance of agricultural products requires an all-round increase in the yield of all agricultural crops, an increase in the number of livestock

with a simultaneous increase in its productivity. This is the main line of development of socialist agriculture.

Increasing the yield of agricultural crops is possible only through the application of a set of agro-technical measures that take into account the conditions and requirements for the cultivation of each crop, the soil and climatic features of each zone of the country. The stereotyped, widespread application of the same agronomic methods can only retard the development of the productive forces of agriculture.

The February-March Plenum of the Central Committee of the CPSU (1954) condemned the stereotyped, widespread use of grass-field crop rotations without taking into account the peculiarities of individual regions of the country, which led to a reduction in the sowing of grain crops and their replacement by crops of perennial grasses, which in arid and semi-arid regions give low yields. This planning practice caused great damage to the development of the country's grain economy and weakened the fodder base of animal husbandry. The introduction of proper crop rotations involves obtaining the largest amount of production per unit area. This requires the provision of the main crops with the best predecessors (for example, clover crops for flax, alfalfa crops for cotton, etc.), the selection of crops and varieties that are the most productive in the conditions of a given area.

The most important economic indicator of the results of the work of socialist agricultural enterprises is the receipt of the largest amount of output from every 100 hectares of agricultural land—arable land, meadows, pastures—with the least labour expenditure per unit of *output*. This requires the development of a diversified economy, taking into account the economic and natural conditions of each region of the country. Obtaining the greatest amount of diverse agricultural output from each hectare of land is the basis for planning socialist agriculture.

The *specialisation* of regions and districts of the country by crops and branches is of progressive importance for the

development of agriculture. Specialisation presupposes, first, the fullest possible use of the specific conditions of each region and region of the country for the planned production of a certain product needed by society (for example, cotton in the Central Asian republics of the USSR); second, the correct combination of the main and additional branches of the economy, primarily agriculture and animal husbandry, grain, industrial, fodder, and vegetable crops. The specialisation of individual regions and districts by crops and branches should provide the population of the country with an abundance of a variety of high-quality products produced in the most favourable conditions, that is, with the lowest expenditure of means of production and labour per unit of production.

### **Machine and Tractor Stations are the Industrial Base of Kolkhoz Production.**

Kolkhozes are served by state machine and tractor stations, in which the most important implements of agricultural production are concentrated.

The concentration of the most important means of agricultural production in the hands of the state is an enormous advantage of the collective-farm system. Agricultural machinery is constantly improving. Without this, the progressive course of socialist agriculture is inconceivable. The creation of numerous more and more advanced machines requires large capital investments, which pay off in a number of years. The Soviet state is investing considerable and ever-increasing resources in agriculture, which would be beyond the power of individual, even the largest agricultural enterprises.

In 1953 alone, expenditures on the development of agriculture from the state budget, as well as from other state

funds, amounted to 52 billion rubles. In 1954, these costs increased to 74.4 billion rubles. As part of the budget allocations, the costs of further strengthening machine and tractor stations amount to 30.8 billion rubles.

Machine and tractor stations are the industrial material and technical base of kolkhoz production and are the decisive force in the development of kolkhoz production, the most important strongholds in the management of kolkhozes on the part of the socialist state. Through MTS, the industrial link between industry and agriculture is carried out. In the relations between the machine and tractor stations and the kolkhozes, the socialist relations of production between the working class and the kolkhoz peasantry are expressed.

Thanks to MTS, the development of collective farms takes place on the basis of higher technology. The high level of mechanisation of kolkhoz production is the basis for increasing labour productivity in kolkhozes. Mechanisation greatly facilitated the work of kolkhoz workers and made it possible to carry out agricultural work in accordance with the rules of agronomy and to apply the achievements of advanced agricultural technology. The widespread use of MTS machines in kolkhoz production gives great savings in labour costs for the production of agricultural products.

By the beginning of 1953, machine and tractor stations had 80% of the total power of mechanical engines (including electric ones) located in MTS and collective farms. In 1953, the MTS carried out more than 80% of the main field work in the collective farms, including almost all the ploughing. In 1953, the work performed by MTS with the help of tractors and combines required 21.9 million less workers per year than would have been required to perform the same work on individual peasant farms.

At the beginning of their activity, machine and tractor stations served mainly the grain farms of collective farms. Then they gradually began to cover all aspects of kolkhoz

production: the cultivation of industrial crops, animal husbandry and its fodder base, potato and vegetable growing. An extensive network of specialised machine and tractor stations has been created in relation to the production direction of collective farms in various regions of the country.

“The main task of machine and tractor stations is to increase the yield of all agricultural crops in the collective farms in every possible way, to ensure the growth of the social number of livestock while increasing its productivity, to increase the gross and marketable output of agriculture and animal husbandry in the collective farms served.”<sup>161</sup>

The most important condition for the solution of this problem is the completion of *the comprehensive mechanisation* of all branches of kolkhoz production: grain farming, the production of industrial and fodder crops, potato and vegetable growing, as well as labour-intensive work on kolkhoz livestock farms. Socialist industry is in a position to provide agriculture with all kinds of agricultural machinery of the most perfect design. In machine-tractor and specialised stations, qualified machine operators of permanent workers have been created: tractor drivers, foremen of tractor brigades, combine operators, drivers of other complex agricultural machines. This makes it possible to use rich and complex agricultural machinery to the fullest and most productively.

Machine and tractor stations, as large state enterprises of an industrial type, serving collective farms, are called upon to be conductors of a high culture of agriculture, organizers of collective farm production. The Soviet state, through machine and tractor stations, exercises its leading

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<sup>161</sup> “On Measures for the Further Development of Agriculture of the USSR.” Resolution of the Plenum of the CPSU Central Committee, Adopted on September 7, 1953 based on the report of comrade. Khrushchev N. S., “The CPSU in Resolutions and Decisions of Congresses, Conferences and Plenums of the Central Committee,” part II, ed. 7, p. 1182.

role in the organisational and economic strengthening of the collective farms. The MTS provides agronomic and zootechnical services to the kolkhozes and assists them in the planning of the social economy, in the proper organisation of labour, in the training of personnel, and in the entire economic, political, and cultural life of the Soviet countryside. This requires qualified leadership, the ability to farm on the basis of the achievements of modern agronomic and zootechnical science, and the generalisation and introduction into production of the experience of the leaders of socialist agriculture. To solve these problems, MTS has managerial and engineering and technical personnel with higher education, highly qualified agricultural specialists - agronomists and zoo-technicians, who carry out constant work in collective farms.

Until 1953, the rich and complex equipment available in the MTS was entrusted to seasonal workers - collective farmers, who were allocated by the collective farms to work in the MTS only for the period of field work. In accordance with the decisions of the September Plenum of the Central Committee of the CPSU (1953), permanent machine operators were created in machine and tractor stations: about 1 million 250 thousand permanent workers were enrolled in the MTS staff, including 870 thousand tractor drivers, 187 thousand foremen of tractor brigades and their assistants, 24 thousand machinists of complex agricultural machines. For the training of agricultural machine operators, a network of mechanisation schools has been organised according to the type of factory training. More than 100 thousand agronomists and zoo-technicians were sent to MTS to serve collective farms.

Machine and tractor stations serve collective farms on the basis of contracts concluded with them, which have the force of law for both parties. The main economic indicator of the MTS activity is the receipt by the collective farms that are served by this MTS of the largest amount of production and cash income for every 100 hectares of agricultural land.

In accordance with the contracts concluded by the MTS with the collective farms, the collective farms pay for the work performed for them by machine and tractor stations in kind - agricultural products, and for some work—in money. *Payment in kind* for the work of the MTS is a part of the gross output of the kolkhoz, which reimburses the costs of state machine and tractor stations for the production of kolkhoz products. Payment in kind embodies the past labour consisting in the spent means of production of MTS, as well as the newly spent labour of MTS employees, consisting of labour for themselves and labour for society. Rates of payment in kind for the work of machine and tractor stations are fixed, differentiated by zones of the country depending on their economic and natural conditions. For exceeding the plans for the yield of agricultural crops, MTS receives *bonuses in kind* from collective farms - a certain part of the above-planned harvest.

By selling agricultural products received from collective farms as payment in kind, the state receives funds that are spent on reimbursement of costs for the means of production of the MTS and on the wages of the employees of the MTS. Through the sale of agricultural products received as payment in kind, the state also receives net income, which is used for the expansion of existing ones, the construction of new MTS and for other public needs.

The establishment of fixed rates of payment in kind created economic conditions for the transition of MTS from budget financing to economic accounting, so that each machine and tractor station would make its own expenses depending on the income received. A further rise in collective-farm production requires a serious improvement in the work of the MTS and a more complete and efficient use of machinery.

The principle of the material interest of employees in the results of their work is implemented in the MTS in special forms, which differ from the forms of remuneration in other state enterprises and collective farms. Permanent and

seasonal workers of tractor brigades receive wages for their work in *cash* and *in kind* on the basis of piecework. At the same time, during field work, wages are calculated according to the fulfilled production standards and prices in workdays. The state, through machine and tractor stations, pays permanent and seasonal workers of tractor brigades a *guarantee minimum* in money and in kind (grain), the amount of which depends on the fulfilment or overfulfilment of the planned task for the yield of agricultural crops in the collective farms served.

In addition, the workers of the tractor brigades receive from the kolkhoz in which the MTS tractor brigade works, the difference between the actual issuance of grain for a workday and the guarantee minimum, as well as all other agricultural products on an equal basis with the kolkhoz workers. During off-field work (in repair shops, mechanisation of livestock farms, construction work in MTS), machine and tractor stations pay their workers cash wages at piece-rate rates. Agronomists and zoo-technicians of MTS, in addition to the wages received from the state, when fulfilling the established plans for the yield of agricultural crops and the productivity of animal husbandry, are paid labour in the amount of 10-20% of the number of workdays accrued to the chairman of this collective farm for the year. In addition to official salaries, MTS managers receive cash bonuses for the fulfilment and overfulfilment of production plans and plans for the delivery of payment in kind to the state.

The system of remuneration of MTS employees materially motivates them in the better use of agricultural machinery and in the growth of collective farm production.



## **Public Economy of Collective Farms. Kolkhoz Means of Production. Workday.**

Freed from the necessity of spending large sums of money on the purchase and lease of land, as well as on the purchase of the most important instruments of production, the collective farms are able to direct their growing incomes to the development of their social economy. The social economy of the kolkhoz is the socialist collective *economy of the peasants* united in an agricultural artel. It is organised on state land and is carried out with the help of modern equipment, concentrated in the MTS and constituting the property of the whole people. The artel means of production and the products produced in the kolkhozes are cooperative-kolkhoz property.

The collective-farm means of production consist mainly of livestock, simple machinery, implements, outbuildings, seeds, etc. In accordance with the nature of the agricultural artel, as cooperative-type enterprises, the socialised means of production are included in the indivisible fund of the kolkhoz. *The indivisible fund* of the kolkhoz includes: kolkhoz instruments of labour, draught and productive livestock, buildings, means of transport, subsidiary enterprises, perennial plantations, irrigation facilities, materials and funds intended for the development of the social economy. The indivisible fund also includes buildings for cultural and domestic purposes (kolkhoz clubs, huts-reading rooms, kindergartens, etc.). The constant growth of indivisible funds is the most important condition for the development of the social economy of the kolkhozes and for the multiplication of kolkhoz wealth.

Capital investments of kolkhozes are used for the construction of farm buildings, livestock buildings, irrigation and drainage canals, reservoirs, uprooting land from shrubs, construction of kolkhoz power plants and other structures. The

capital investments of the kolkhozes in their social economy at the expense of the kolkhozes' own funds and the labour of the kolkhoz workers, without taking into account the costs of expanding the herd, amounted to about 1946 billion rubles in 1950-40, and 1951 billion rubles in 1953-36. In addition, in 1946-1950 the collective farms spent more than 11 billion rubles to increase the number of public livestock and poultry, and in 1951-1953 more than 5 billion rubles.

Collective farms, as large socialist enterprises, require planned management of the economy, and they cannot exist and develop spontaneously. State planning directs the development of kolkhozes along the path of increasing the yield of agricultural crops, increasing the number of livestock while increasing its productivity, and introducing the achievements of modern technology and advanced science into agriculture.

The fullest use of the advantages of planned economy requires such planning of collective-farm production which, on the one hand, would ensure the fulfilment by the kolkhozes of their obligations to the state to deliver the corresponding agricultural products, and, on the other hand, would contribute to the maximum extent to the development of the self-activity and initiative of the kolkhozes in expanding the production of those crops for which they have the best natural and economic conditions.

One of the decisive economic advantages of a large-scale collective farm is that it has the widest possible opportunities for diversified farming.

Diversified farming makes it possible to rationally use the labour force in the kolkhozes and to obtain the largest amount of output from each hectare of public land of the kolkhoz. In kolkhozes, which, depending on the economic and natural conditions of the individual regions of the country, correctly combine the production of grain, industrial, fodder, vegetable crops, and animal husbandry, and the use of kolkhoz labour throughout the year is more uniform. Funds in

diversified collective farms are also received more evenly throughout the year, which makes it possible to finance the activities carried out in the collective farms in a timely manner.

The main form of labour organisation in kolkhozes is a *permanent production brigade* created by the kolkhoz board to perform work in one or another branch of the social economy.

Production teams are: field farming, animal husbandry, forage production, vegetable growing, horticulture, construction and others.

In the fields of crop rotation of the collective farm, the *field growing team* is allocated land plots, the size of which should ensure the highly productive use of tractors, combines and other machines of the MTS in all agricultural work. Each field brigade is assigned draught animals, necessary agricultural implements and outbuildings. Within the field team, links are created for more productive use of manual labour in the cultivation of labour-intensive crops. The units are directly subordinate to the foreman of the field brigade. The June Plenum of the Central Committee of the CPSU (1954) recognised the need to strengthen the production brigades in the collective farms, but at the same time to encourage the organisation of links on row crops and industrial crops and to provide them with all possible assistance in obtaining high yields in the assigned areas.

*Livestock brigades* are organised to work on kolkhoz farms. Each livestock brigade is usually assigned one farm with the necessary premises and means of production for the care of livestock.

An important condition for the most effective use of complex equipment of machine and tractor stations is to ensure well-coordinated joint work of MTS and collective farms. This is achieved by combining the work of the MTS tractor brigade with the permanent production teams of the collective farm. Each MTS tractor brigade has been servicing one or more collective farm brigades for a number of years.

In accordance with the nature of cooperative-kolkhoz property, the requirements of the economic law of distribution according to labour are carried out in the kolkhozes by means of the workday. *The workday* is a measure of the expenditure of labour of the kolkhoz workers in the social economy of the kolkhoz, which at the same time determines the share of each kolkhoz worker in the kolkhoz income. Workdays take into account the labour costs of kolkhoz workers in the social economy; According to the workdays, the kolkhoz distributes among the kolkhoz workers that part of the income that goes to personal consumption.

In the kolkhozes, a rate of output during the working day is established for each job, which is available to the conscientiously working kolkhoz worker, taking into account the condition of draught animals, machinery, and the quality of the soil. In accordance with the rate of production, the *rate in workdays* is determined depending on the required qualifications of the worker, the complexity, severity and importance of this work for the artel. The fulfilment of the daily production rate for relatively simple field work is estimated at one workday. All other types of work on the kolkhoz are valued below or above this. During the working day, a collective farmer may be charged one workday, part of a workday, or several workdays, in accordance with the type of work performed and the degree of fulfilment or overfulfilment of production norms. A workday is therefore different from a workday.

The types of work on the kolkhoz and their rate in workdays are divided into a maximum of nine groups. The first group includes the simplest jobs that do not require any qualifications from the employee. For the fulfilment of the established daily norm of output for such work, a collective farmer is charged about 0.5 workdays. The ninth group includes jobs that require the highest qualifications; According to them, approximately 2.5 workdays are accrued for the fulfilment of the daily production rate.

The state establishes approximate norms for the output of kolkhoz workers and their rates in workdays. The board of each

kolkhoz develops, in accordance with local conditions, its own norms of output and rates (but not lower than those recommended by the government), which are approved by the general meeting of kolkhoz workers. Production rates should be progressive, i.e., equal to the advanced collective farmers. At the beginning of the year, kolkhozes plan the expenditure of workdays for individual industries and agricultural crops, and exercise strict control over the correctness of the calculation of workdays in accordance with the work performed by the brigade, link and individual kolkhoz workers.

Thus, both the quantity and quality of the labour of collective farmers at various jobs are taken into account in the workday, which makes it possible to measure the various types of labour in the kolkhoz. Skilled labour is valued higher in workdays than unskilled labour, and more intensive labour is valued higher than less intensive labour. The workday also makes it possible to measure labour of different productivity in the same work. In case of exceeding the norm of production, the collective farmer is charged a correspondingly greater number of workdays. In the labour-day, the labour of the individual kolkhoz worker is expressed as a part of the aggregate directly social labour in the kolkhoz. In this way, the personal labour of each kolkhoz worker in kolkhoz production receives a social evaluation. The workday expresses the socialist relations of production between the kolkhoz workers within a given kolkhoz and is an important economic instrument for the organisation of kolkhoz production.

Since the existence of two basic forms of socialist production gives rise to commodity production and circulation, the kolkhozes cannot confine themselves to accounting for the costs of producing kolkhoz products in workdays. They run their own financial economy: they account for the products of kolkhoz production and income in monetary terms, they have money savings; Payment for

workdays in collective farms is carried out not only in kind, but also in cash.

The principles of equality under socialism are expressed in the workday: the emancipation of all working people from exploitation, the duty of everyone to work, and the right to receive for their work in accordance with its quantity and quality. The workday ensures equal pay for men's and women's work. The kolkhoz system put an end to the centuries-old economic inequality of peasant women. Only on the collective farm did a peasant woman have the opportunity to stand on an equal footing with a man.

Thus, the workday is a new economic category engendered by the collective-farm system.

## **Products of Collective Farm Production. Kolkhoz Income.**

All the products produced in the social economy of the artel constitute group, cooperative-kolkhoz property. At the same time, not only the kolkhozes, but also the machine and tractor stations, which carry out the most important work in the kolkhozes, participate in the creation of kolkhoz products and kolkhoz revenues. The value of collective-farm products is increasingly embodied in the labour of industrial workers.

*The gross output* of the collective farms contains, firstly, the expenditure of past labour embodied in the expended means of production of the MTS and collective farms, and, secondly, the newly expended living labour of the collective farmers and workers of the machine and tractor stations.

As it was said, the reimbursement of the state's expenses for the production of kolkhoz products is carried out through payment in kind made by the kolkhozes for the work of machine and tractor stations. Thus, a part of the kolkhoz output in the form of payment in kind is received from the

kolkhozes to the state, without taking the form of a commodity.

The kolkhozes replace the means of production they have expended for the production of kolkhoz products mainly in kind, reproducing them in their own social economy. Such means of production include: seeds, fodder for livestock, draught and productive livestock, natural fertilizers, etc. A certain part of the expended means of production is replaced by the kolkhozes by purchasing them from state and cooperative organisations. Such means of production include: small implements, small engines, simple machines, artificial fertilizers, breeding livestock, building materials, etc.

The labour of the kolkhoz workers, again expended on the production of kolkhoz products, forms the *gross income of the kolkhoz*. Gross income is created by the labour of the collective farmers for themselves and by their labour for society. That part of the gross income of the kolkhoz which is created by the labour expended by the kolkhoz workers in their social economy constitutes the *personal income of the kolkhoz workers*, which is distributed according to the workdays. In addition, collective farmers receive personal income from their subsidiary household plots. That part of the gross income which is created by the labour of the kolkhoz workers for society (for the social economy of the kolkhoz and for society as a whole) constitutes the net income of the kolkhoz. The net income is used by the kolkhozes for socialist intra-kolkhoz accumulation, mainly for the development of the social economy, for social and cultural activities in the kolkhozes, and for satisfying the needs of the *kolkhoz workers*. A certain part of the net income of the kolkhoz, mainly through the system of procurement, procurement, and income tax, is placed at the disposal of the state, i.e., it is transformed into a centralised net income of the state and is used for the needs of the whole people (including the needs of kolkhoz production and kolkhoz workers).

Kolkhoz incomes are divided into *in-kind* and *monetary*. Kolkhoz workers receive the bulk of their wages in kind (grain, vegetables, fruits, meat, milk, etc.). In kind, there is an increase in the seed, fodder and other social funds of the collective farms. Part of the gross output of the kolkhozes is *marketable*, i.e., it is sold by the kolkhozes to the state and the cooperatives through the system of state procurement and procurement, and directly to the population on the kolkhoz market.

A considerable part of the marketable output of the kolkhozes is placed at the disposal of the state in the form of *state procurement* of agricultural products, which include compulsory deliveries and contracting. Procurement in the order of mandatory deliveries is carried out for grain crops, livestock products, potatoes and a number of vegetable crops; Procurement in the order of contracting is carried out mainly for industrial crops.

The basis of the economic policy of the Communist Party and the Soviet state in state procurement and procurement of agricultural products is the consistent implementation of the principle of the material interest of the collective farms and collective farmers in increasing the production of agricultural products. This is achieved through the establishment of fixed district-by-district norms of obligatory deliveries, as well as procurement and purchase prices, which ensure the reimbursement of costs for the production of agricultural products and the growth of kolkhoz cash incomes.

State procurement in the form of compulsory deliveries of agricultural products by collective farms is carried out on *the basis of the per-hectare* principle, that is, in accordance with the amount of land assigned to the collective farm. Each kolkhoz is obliged to sell to the state a certain amount of field products per hectare of arable land, and livestock products per hectare of land area. The per-hectare norms of mandatory deliveries are constant. The



progressive significance of this system of compulsory deliveries of agricultural products lies in the fact that it increases the interest of the kolkhoz workers in the development of public cultivation and animal husbandry, in the fullest possible use of the public lands of the kolkhoz.

Under firm, constant norms of compulsory deliveries, the kolkhozes which have achieved higher yields of agricultural crops and the productivity of animal husbandry, and which make the most productive use of public land, have full confidence that, after fulfilling their obligations to the state, they can freely dispose of all kolkhoz products at their own discretion.

In accordance with the decisions of the September Plenum of the Central Committee of the CPSU (1953) and the subsequent decisions of the Communist Party and the Soviet state, the incorrect practice of procurement was eliminated, when increased norms of mandatory deliveries were established for the advanced collective farms, which reduced the material interest of collective farms and collective farmers in increasing the production of products. The norms of mandatory deliveries to the state for a number of agricultural products have also been reduced. New fixed norms for these deliveries have been established, which cannot be increased by local organisations.

Compulsory deliveries of agricultural products by collective farms to the state are not a tax in the economic sense of the word, since the state pays for these products. The Soviet state fixes, in a planned manner, fixed *procurement prices* for agricultural products that arrive in the form of centralised procurement. In planning these prices, the state takes into account the value of this or that agricultural product, the importance of this product for the national economy, and the economic profitability of its production for the kolkhoz. At the same time, procurement prices are set at a level that ensures that a part of the net income of collective farms enters the state fund to meet

national needs. The state's revenues from the sale of products obtained by means of procurement are used for the needs of the whole people: for the development of socialist industry, which supplies agriculture with machinery and fertilizers, for education, public health, and so forth. Moreover, some of them are sold at preferential state prices, lower than the usual ones.

In addition to mandatory deliveries and contracts, the state procures agricultural products from kolkhozes and kolkhoz workers in the order of *state purchases* at purchase prices that are significantly higher than procurement *prices*. In the procurement of agricultural products, the state conducts a counter-sale of industrial goods for economic purposes to kolkhozes and kolkhoz workers.

Finally, the kolkhozes sell a certain part of their marketable output on the kolkhoz market at prices that develop on this market under the influence of supply and demand.

State procurement and purchases of agricultural products are the most important source of monetary income for collective farms, which are used to replenish the indivisible fund, pay for the labour days of collective farmers, and for other purposes.

In the system of economic measures to increase the material interest of kolkhozes and kolkhoz workers in the development of kolkhoz production, the question of the level of procurement and purchase prices is very important. For example, at the September Plenum of the Central Committee of the CPSU, it was established that the previously existing level of procurement and purchase prices for a number of agricultural products did not encourage collective farms and collective farmers to increase their production. There was an objective need to raise these prices in accordance with the requirements of the law of value.

In order to strengthen the personal material interest of collective farmers in the further development of agriculture,

the decision of the September Plenum of the Central Committee of the CPSU significantly increased procurement and purchase prices, reduced the norms of mandatory supplies and increased the share of purchases at higher purchase prices, reduced the amount of agricultural tax on personal subsidiary farms of collective farmers. As a result, the additional monetary income of collective farms and collective farmers amounted to 13 billion rubles in 1953, and at least 24 billion rubles in 1954. Due to the reduction in mandatory supplies of agricultural products, collective farms and collective farmers have the opportunity to sell a significant part of marketable products to the state at increased purchase prices.

But the increase in procurement and purchase prices is not the main means of increasing collective-farm revenues. The main way for the further powerful upswing of all branches of agriculture is to raise the level of collective-farm production, increase gross and marketable output, and reduce the cost per unit of output produced. As a result, at the given level of procurement and purchase prices, all branches of kolkhoz production will bring high incomes.

The amount of income in kind and money in individual kolkhozes is different and is determined primarily by the level of labour productivity achieved. Labour productivity in kolkhozes depends on a variety of economic conditions. The most important of them are: the mechanisation of kolkhoz production, the additional investment of the means of production and labour of the kolkhozes themselves on the same land area, the improvement of the qualifications and proper organisation of the labour of kolkhoz workers and MTS workers, the development of socialist competition in kolkhozes and MTS, the introduction of the latest achievements of agronomic and zootechnical science and the foremost agricultural workers in kolkhoz production.

## **Differential Rent Under Socialism.**

In the kolkhozes there are economic and natural conditions for the formation of differential rent.

The existence of differential rent in the kolkhozes is connected primarily with the existence of kolkhoz property and commodity production under socialism. The lands of the kolkhozes differ from each other in fertility, location, and in the degree of productivity of their use, which is associated mainly with the mechanisation of agriculture. Since the amount of the best land is limited, socialist society is forced to cultivate the worst plots of land in order to satisfy its needs for agricultural products. The labour of kolkhoz workers, used in different conditions of production, has different productivity. Collective farms with different levels of labour productivity receive a different amount of agricultural products from each hectare. This means that they spend unequal amounts of labour per unit of output.

Collective farms that employ their labour on better lands, under more favourable conditions of production and marketing, create additional income as compared with collective farms working on worse lands, under less favourable conditions. This income in its natural form consists of a variety of agricultural products: grain, cotton, meat, milk, wool, etc. One part of this additional income is spent in kind, the other part is realised in the form of money.

In view of the fact that all the products produced by the collective farms constitute collective farm property, the additional income resulting from higher labour productivity, for example, on better, more fertile plots of land, also goes to the ownership of individual collective farms.

Additional income of collective farms, realised in the form of money, is associated with the peculiarities of pricing in agriculture. All the additional income created on the

kolkhoz and expressed in the form of value, money, is the difference between the social cost of production (or social value) of the agricultural product and the individual cost of production (or individual value) of the agricultural product. To what extent this difference is realised by the collective farms depends on the level of prices.

The scarcity of the best land cannot but affect the level of prices for agricultural products. When planning prices, the need to ensure the profitability of the cultivation of this or that crop is taken into account not only under the best, but also under the worst conditions of production.

Products produced in kolkhozes under *different* conditions of labour productivity are sold by them at the same procurement and purchase prices for a given zone, or at the *same* price of the kolkhoz market. As a result, collective farms with higher labour productivity receive additional cash income.

*The differential rent* of the kolkhozes is the additional net income in kind or money realised by the kolkhozes which have better or more conveniently located plots of land, and which use the land more productively than the kolkhozes which use the worst plots of land, the more remote land, or the less productive use of the land.

Differential rent under socialism is fundamentally different from differential rent under capitalism. It is not the fruit of exploitation, but is the result of the collective labour of the collective farmers working for themselves, for their own social economy, as well as the result of the labour of the MTS workers serving the collective farms. Under socialism it does not take the form of rent for land and goes not to the class of large landowners, but to the collective farms, collective farmers and the partially socialist state.

A distinction must be made between two forms of differential rent, the first and the second.

*Differential rent I* is the additional net income generated by the collective farms to which the best land is assigned, as

well as by the collective farms which are closer to the points of sale of their products. Other things being equal, with the same level of mechanisation, under the same system of agriculture, the collective farms that employ their labour on the best lands receive more output from each hectare than the collective farms located on the worst lands. As a result of the higher productivity of labour in the collective farms located on the best lands, these collective farms also receive higher incomes.

Collective farms located closer to railway stations, wharves, procurement points, cities and other points of sale of products spend less labour and money on the transportation of products. As a result, the cost of producing a unit of output in these kolkhozes is lower than in kolkhozes located at a long distance from the points of sale. Collective farms that have advantages in location also receive additional income.

*Differential rent II* is an additional net income created in the collective farms that are engaged in a more intensive social economy due to the additional investment of the means of production and labour of the collective farmers and MTS workers.

Collective farms that have a higher level of mechanisation, invest more labour in each hectare of land assigned to them, increase soil fertility by carrying out reclamation work, applying fertilizers, etc., that have a large number of highly productive livestock, that is, conduct more intensive farming, receive more output from each hectare of land than collective farms with less intensive farming. As a result of higher labour productivity in an intensive economy, less labour is spent per unit of production and higher natural and monetary incomes are obtained. This is an important stimulus for the collective farms to intensify agriculture.

The preponderant part of the differential rent remains in the kolkhozes and is used to develop their social economy and to raise the material and cultural standard of living of

the kolkhoz workers. Some of the differential rent is made available to the state through various channels. Firstly, through payment in kind to MTS, since the latter embodies additional net income created by the labour of MTS employees, and the rates of payment in kind are differentiated by zones, as well as since bonuses are established for the overfulfilment of crop yield plans by MTS. Secondly, through the system of state procurements, since procurement prices presuppose the redistribution of a part of the net income of the collective farms to general state expenditures, and the norms of compulsory deliveries of products by the collective farms to the state are different, depending on the conditions of production of individual regions. Thirdly, to some extent, through the income tax on collective farms, since the size of the tax depends on the amount of collective farm income.

### **Distribution of kolkhoz Production and Kolkhoz income. Growth of the Well-being of the Kolkhoz Peasantry.**

In accordance with the peculiarities of cooperative-kolkhoz ownership, kolkhozes have different forms of distribution of products than state enterprises.

Collective farms are an integral part of the socialist national economy. The collective-farm peasantry has a vital interest in the flourishing of the economy and culture of socialist society and in the strengthening of its might. The state renders enormous material assistance to the kolkhozes both in servicing kolkhoz production and in the all-round development of the culture of the kolkhoz village. In view of this, the most important task of collective farms is the timely fulfillment of their obligations to the state.

According to the Statute of the Agricultural Artel, collective farms sell part of the harvest of agricultural crops and livestock products to the state at fixed, planned prices in the order of compulsory deliveries and contracts. For the work performed by the MTS, the collective farms pay the state in kind. From the money received by the kolkhozes, they repay cash loans to the state and pay interest on them. Collective farms also pay a small income tax and make payments for property insurance. The timely and complete fulfilment by the kolkhozes of their obligations to the state ensures the correct combination of the interests of the individual kolkhozes with the interests of the state, the whole people.

In order to ensure a continuous rise in kolkhoz production and the growth of the well-being of kolkhoz workers, the *kolkhoz public funds*, which are created in kind and in cash, are of great importance.

Public funds intended for the replacement of expended kolkhoz means of production are formed in the form of *basic seed and fodder funds*. As has already been said, a part of the means of production expended by the collective farms is replaced directly by the expenditure of labour of *the* collective farmers, and some means of production are bought with money.

After the reimbursement of the expended means of production, the kolkhozes use the remaining gross income for the formation of social funds for accumulation and consumption and for distribution among the kolkhoz workers according to the workdays.

The social *accumulation funds* in the kolkhoz are formed at the expense of net income. The growth of the collective-farm accumulation funds takes place primarily through annual deductions from monetary income to the indivisible fund, with the exception of that part of it which is used for depreciation. In addition, the sources of growth of indivisible funds are the direct investments of kolkhoz workers' labour



in the construction of outbuildings, in the manufacture of agricultural implements for the needs of the kolkhoz, in the construction of ponds and reservoirs, in increasing the number of social livestock, improving their quality, and so on. This includes seeds and fodder allocated to increase the seed and fodder stock in connection with the expansion of sown areas, the growth of the number of socialised livestock and an increase in its productivity, as well as *insurance funds* (seed and fodder) created in case of crop failure and lack of fodder.

Also of great importance for raising the well-being of kolkhoz workers are the *public consumption funds* created in the kolkhozes at the expense of net income: *a food fund* in the event of crop failure; *a fund to help* disabled people who have temporarily lost their ability to work, needy families of military personnel, funds for the maintenance of nurseries and orphans; *The cultural fund*, i.e., the fund expended to serve the cultural needs of the kolkhoz village (the training of kolkhoz cadres, the construction of clubs, etc.).

Wages in kolkhozes are based on principles that ensure the *personal material interest* of kolkhoz workers in increasing the production of grain, livestock products, and other agricultural products.

After the fulfilment of all obligations to the state and the formation of the established social funds, the kolkhoz distributes all other products and monetary income among the members of the artel according to the workdays. Income received by kolkhoz workers on workdays is not subject to any taxes.

The income of each kolkhoz worker derived from the social economy of the artel depends on two values: (1) the number of workdays worked out by the kolkhoz worker, and (2) the amount of payment for the workday. The number of workdays worked out during the year is determined by the work of *each* collective farmer. The amount of payment for a workday, i.e. the amount of food and money that a collective

farmer receives for one workday, depends on the work of *all* members of the collective farm. The better the kolkhoz works as a whole, the more successfully its social economy develops, the higher is both the total amount of collective-farm income and the size of that part of it which is distributed among the working days. A part of the net income of the kolkhoz, which remains after the fulfilment of obligations to the state and the formation of established public funds, is also distributed according to workdays. In addition, the income of kolkhoz workers from the social economy is also increased at the expense of these public consumption funds. All this creates the material interest of each collective farmer in the development of the social economy of the collective farm.

In order to more consistently implement the requirements of the economic law of distribution according to labour, the kolkhozes have established a system of payment for labour in which kolkhoz workers who have achieved higher production results receive higher wages than kolkhoz workers who have achieved relatively lower results.

An important means of increasing the personal material interest of kolkhoz workers in the results of their work is *additional* payment (in kind or in money) for the overfulfilment of the plan established for brigades and units for the yield of agricultural crops and the productivity of social animal husbandry.

For example, collective farmers of field teams receive as an additional payment from one quarter to one half of the grain collected by the team in excess of the planned harvest set for it for exceeding the 361 yield plan for the entire area of grain crops assigned to the team.

It is also applied to the *accrual* of an additional number of workdays to brigades and units for overfulfilment of the crop yield plan and the *write-off* of some part of the workdays for underfulfilment of this plan.

The wages of kolkhoz workers working on kolkhoz livestock farms are set depending on the milk yield, wool shearing, the

production and rearing of young animals, the increase in the live weight of productive livestock, and so on.

At the discretion of the general meeting, the kolkhoz may give to the kolkhoz workers in advance about 25% of the funds received from the sale of livestock and livestock products, and up to 25% from the sale of potatoes and vegetables. During the period of hay harvesting and straw harvesting, collective farmers and workers of tractor brigades are given up to 10% from the first cutting and 20% from the second cutting of the total amount of hay and straw harvested, and, in addition, 30% of the excess hay harvest.

Thus, in the workday and in the system of distribution of collective-farm incomes, the personal interests of the kolkhoz workers are correctly combined with the social interests of the kolkhoz. The measures taken by the Communist Party and the Soviet state to strengthen the material interest of the kolkhozes and kolkhoz workers in the further development of agriculture further strengthen the alliance of the working class with the kolkhoz peasantry, which is the basis of the power of the socialist state.

The main force of the kolkhozes, which ensures a further steady increase in the well-being of the kolkhoz workers and an ever more complete satisfaction of society's needs for agricultural products, is the rapid development of the kolkhoz social economy. In the agricultural artel, along with the social economy of the kolkhoz, which is of decisive importance, there is a subsidiary *private farm of the kolkhoz workers on the household plot*. In this way, the correct combination of the social and the personal is achieved in the artel while subordinating the personal to the public. Any violation of the principle of the correct combination of the social and the personal in the collective farms undermines the foundations of the agricultural artel and violates the foundations of a friendly alliance between the working class and the peasantry.

The monetary income of collective farms has risen from 5.7 billion rubles in 1933 to 20.7 billion rubles in 1940 and 49.6 billion rubles in 1953. In addition, collective farmers receive monetary income from their subsidiary farm on the household plot. Collective farmers use their monetary income received from public and private farming to buy industrial goods at the planned prices of state and cooperative trade, which are systematically reduced. Monetary and in-kind incomes (in monetary terms) of collective farmers will increase by at least 40% under the fifth five-year plan.

On the basis of the collective-farm system, the appearance of the Soviet countryside changed radically. On the site of the old village, a new village arose with social and economic buildings, power plants, schools, libraries, clubs, radio, and nurseries. The Soviet peasant is a new type of peasant, accustomed to the benefits of science and culture. From among the kolkhoz peasantry grew numerous cadres of the Soviet intelligentsia - engineers, doctors, agronomists, zoo-technicians, teachers, organizers of large-scale socialist production. Millions of kolkhoz workers have mastered the most advanced agricultural techniques, have become masters of high yields of agricultural crops and highly productive animal husbandry.

The profound cultural revolution that swept the Soviet countryside is evidenced by the following facts. The total number of pupils in primary, seven-year, and secondary schools in the countryside increased from 6.1 million in 1914-15 to 21.1 million in 1951-52. On January 1, 1953, there were 264,000 cultural and educational institutions in the village: houses of culture, village clubs, reading rooms, libraries and cinema installations. In the Soviet countryside, not only has primary education been compulsory, but the task of universal seven-year education is being successfully accomplished.

## Development of State Farms and Ways to Increase Their Profitability.

By their socioeconomic nature, the state farms represent the highest form of organisation of socialist agriculture.

Sovkhozes are state-owned socialist enterprises that produce grain, meat, milk, wool, and a variety of industrial crops. All the means of production in their possession, as well as the products they produce, are the property of the whole people.

The size of the state farms, as the largest agricultural enterprises, is in a position to make the greatest use of modern agricultural machinery, to apply a rational division of labour, and to economize on the costs of outbuildings, equipment, etc. The size of the state farms is determined by their production direction, the economic and natural conditions of the areas where they are located, the level of technology attained, and the need for the all-round and productive use of each hectares of land.

The most rational are the following sizes of state farms: *grain* state farms with an arable area of 20 to 25 thousand hectares, and with significant crops of row crops - 15 thousand hectares, *meat* state farms - from 3 to 8 thousand heads of cattle, *dairy* state farms - up to 1 thousand heads of cows, *sheep farms* - up to 50 thousand heads and not more than 10 thousand heads with breeding livestock. *pig farms* - from 400 to 1 thousand sows. The most important economic indicator of the size of the state farms within a given production direction is the size of the gross and marketable output produced on the state farm.

State farms are highly mechanised agricultural enterprises. They are equipped with the latest agricultural machinery, which makes it possible to mechanize almost all production processes, which creates the necessary conditions for achieving high labour productivity. The highest level of

mechanisation is achieved in grain farming, where all the main production processes are carried out with the help of machines. Comprehensive mechanisation of all branches of production is carried out in state farms.

A major advantage of state farms is their high marketability. Marketable grain production in grain state farms averages about 70%. State farms supply the state with a significant amount of agricultural products.

However, the enormous potential of the state farms is completely underutilised. There are still quite a few state farms which, as a result of bad management, make wasteful use of large tracts of land, produce little grain, meat, milk and other products, and carry on farms at a loss. The elimination of these shortcomings and the skilful use of the advantages of the state farms as highly mechanised, large-scale socialist enterprises will make it possible to sharply increase the production and delivery of agricultural products to the state in the shortest possible time.

In the development of socialist agriculture during the period of gradual transition from socialism to communism, the role of the state farms in supplying the country with food is increasing.

In 1954-1955 alone, state farms increased the sowing of wheat and millet by 4.3 million hectares. By developing virgin and fallow lands and increasing the yield of grain crops, the state farms in the next two to three years must increase the delivery of grain to the state to at least 2 million poods a year, which is enough to supply grain to more than 3 million people.

State farms have all the necessary conditions to be highly productive, highly profitable farms, showing an example of rational organisation of agricultural production, high crop yields and livestock productivity.

The most important factor in increasing the profitability of state farms is the full and rational use of their *land funds*.

The most expedient main direction of production of the state farm, i.e., its specialisation in the production of grain, meat, milk, wool, cotton, flax, beets, etc., is determined by the natural and economic conditions of a given region. Along with the main industries, it is necessary to develop additional and auxiliary industries in every possible way: vegetable growing, horticulture, viticulture, poultry farming, beekeeping. For specialised state farms, any of the of these industries is the main. The degree of development of each additional and subsidiary industry is determined taking into account the possibility of ensuring high marketability and profitability of these branches of the economy.

Narrow specialisation in the production of any one crop or the breeding of any one type of livestock does not make it possible to use the land productively, leads to the unprofitability of the economy and causes damage to the state. Diversified, multifaceted state farm production while maintaining specialisation in the main industry ensures the receipt of the largest amount of agricultural products from each hectare of arable land, meadows and pastures.

An increase in the production of gross and marketable products from each hectare of agricultural land means a decrease in the *cost of production* and an increase in the profitability of the farm. State farms, being large, highly mechanised farms, can produce agricultural products with the least expenditure of labour and supply them to the country at the lowest prices. Reduction of the cost of production of state farms is achieved through further mechanisation of production, increasing the efficiency of the use of the machine and tractor fleet, introducing the achievements of agricultural science and the experience of the best workers into all branches of state farm production, applying a set of agronomic and zootechnical measures, improving the organisation of labour, and observing the economy regime. All this leads to an increase in labour

productivity, expressed in an increase in crop yields and livestock productivity.

State farms carry out their activities on the basis of economic calculation. The level of profitability of a state farm is determined by the amount of net income it receives. *The net income* of the state farm is the difference between the cost price and the price of the agricultural product which the state farm hands over to the state or which is sold on the market in a certain part.

In order to ensure the material interest of the state farms in the development of production, in 1954 the previously existing state subsidies to state farms were abolished and new delivery prices for grain, oilseeds and the main types of livestock products were introduced in order to ensure the possibility of each state farm receiving a net income on the basis of reducing the cost of production. The products of the main branches of the state farm are handed over to the state through procurement points at a fixed delivery price. The products of subsidiary industries, including those processed within the farm, are sold by state farms directly to the consumer at state retail prices. The abolition of state subsidies to state farms and their transfer to economic accounting is the most important economic measure in the field of state farm construction, which has laid a solid foundation for the rational management of state farms.

In order to strengthen the material interest in reducing the cost of production and increasing savings in the state farms, at least 20% of the amount of net income realised by them remains at the disposal of the state farm, and the rest of it goes to the centralised net income of the state.

The net income that remains at the disposal of the state farm and is accumulated in the form of money is spent on strengthening and expanding the economy, on improving the cultural and social services of the workers of the state farm (on children's institutions, on the equipment of clubs, rest homes and sanatoriums, and so on). For this purpose, special



funds are formed: a fund *for strengthening and expanding the economy of the state farm*, an insurance fund, and a director's fund.

The development of state farm production depends to a great extent on the strengthening of socialist forms of labour organisation and the consistent implementation of the socialist principle of wages for labour.

The main form of labour organisation in the departments and farms of the state farm is *a permanent production team*. In field cultivation, there are *tractor-field brigades*, which are assigned land plots in the fields of crop rotation, tractors, combines and other agricultural machines, vehicles and household implements. As part of the brigade, special units are created for the cultivation of those crops, the production of which is poorly mechanised. On the farms of the state farms, livestock brigades are created, to which livestock, the equipment necessary for their care, *livestock buildings*, and so on are assigned.

The principle of the material interest of the workers of the state farms in increasing the yield of agricultural crops, the productivity of animal husbandry and the profitability of the farm is carried out through a system of piece-work wages paid in cash. Cash bonuses are given for the excess yield of agricultural crops, for high indicators of livestock productivity: milk yield, wool shearing, rearing and preservation of young animals, etc. In addition to cash wages, those who work on combine harvesting (combine harvesters, their assistants, tractor drivers, and others) receive wages in kind and additional *bonuses in kind* Grain. For managers and specialists of state farms, cash bonuses have been established for the fulfilment and overfulfilment of plans for production and delivery of products to the state.

The material interest of both the state farm as a whole and its individual workers in the results of labour is the most important condition for the continuous growth and improvement of state farm production.

## BRIEF CONCLUSIONS

1. The socialist system of agriculture, in the form of kolkhozes, MTS, and sovkhozes, is the highest and most progressive form of organisation of agricultural production. Agriculture under socialism is called upon to ensure the all-round satisfaction of the population's needs for foodstuffs and industry for raw materials. The increase in labour productivity in socialist agriculture is expressed in the production of more products per hectare farmland with less labour per unit of production.

2. Machine and tractor stations are the industrial material and production base of kolkhoz production, the strongholds for the management of kolkhozes on the part of the socialist state. The main task of the machine and tractor stations is to increase the yield of all agricultural crops in the collective farms in every possible way, to ensure the growth of the number of public livestock while increasing its productivity, and to increase the gross and marketable output of agriculture and animal husbandry in the collective farms served. Machine and tractor stations play a decisive role in the development of kolkhoz production.

3. The agricultural artel is the only correct form of collective farming under socialism. Collective farms, as socialist cooperative enterprises, are conducted by collective labour of collective farmers with the help of the main means of production owned by the socialist state and certain means of production owned by the collective farms. In the U.S.S.R., the land occupied by the kolkhozes has been transferred to them by the state for perpetual free use. The Soviet state allocates large sums of money to finance agriculture and to satisfy the cultural needs of the kolkhoz peasantry.

4. The social economy of the kolkhozes is the main source of growth of the kolkhoz wealth and well-being of the kolkhoz peasantry. In the kolkhozes the requirements of the economic law of distribution according to labour are

carried out by means of the workday. The workday is a special measure of labour and consumption, engendered by the collective-farm system, which combines the personal material interest of the kolkhoz workers with the interests of the kolkhoz's social economy. The consistent implementation of the principle of the personal material interest of the kolkhoz workers in the development of kolkhoz production is an important lever for the further development of agriculture.

5. A large collective farm ensures high incomes. The additional income received from the collective farms located on the best land or using the land most productively constitutes differential rent. The differential rent of the collective farms goes to the collective farms and collective farmers, and part of it is placed at the disposal of the state.

6. In accordance with the Statute of the agricultural artel, the products and monetary income of the kolkhoz shall be used for the fulfilment of the kolkhoz's obligations to the state, for the creation of public funds and for the payment of kolkhoz workers according to workdays. In accordance with the basic economic law of socialism, the kolkhoz system ensures a steady increase in the material well-being and cultural standard of living of the kolkhoz peasantry.

7. State farms are the largest and most mechanised state agricultural enterprises, playing an ever-increasing role in the production of agricultural products. State farms carry out their activities on the basis of economic calculation. Steady growth of labour productivity, material interest of state farms and their workers in the results of labour Necessary conditions for the transformation of all state farms into exemplary, highly productive and profitable farms.

## CHAPTER XXXV. COMMODITY TURNOVER UNDER SOCIALISM

### **The Nature and Role of Trade under Socialism.**

Trade under socialism, which in the U.S.S.R. has been called *Soviet trade*, is fundamentally different in nature from capitalist trade. Soviet trade is trade without capitalists. In the USSR, goods are sold by state and cooperative enterprises and organisations, kolkhozes, and, to a relatively small extent, by kolkhoz workers. The funds of Soviet trade enterprises are socialist property. With the establishment of the undivided domination of socialist property in all spheres of the national economy in the economy of the USSR, the conditions for the existence of such categories as trade capital, trade profit, and others completely disappeared.

Trade under socialism is put at the service of the people. It is conducted in accordance with the requirements of the basic economic law of socialism, in order to satisfy the growing needs of society to the fullest extent, in contrast to capitalist trade, which, as a function of merchant capital, is carried on for the profit of the capitalists.

In socialist society, the bulk of the produced articles of personal consumption are supplied to the population through commodity circulation and trade. The majority of the population's income is spent on the purchase of items for personal consumption - food, clothing, footwear, cultural items, household and household items. Only a relatively small proportion of personal consumption is distributed directly, without the use of commodity turnover, for example, in the case of the in-kind distribution of products to collective farmers on a workday basis.

Through the system of trade, the kolkhozes acquire articles of production—agricultural machinery, various implements, electrical equipment, fuel, building materials, automobiles, and so on.

All this means that trade under socialism is the *basic form of distribution of consumer goods among members of society* and of satisfying the growing personal needs of the working people.

Soviet trade, as Lenin taught, is a form of economic bond between town and country. It is a vital link in the system of production and economic *relations between state industry and kolkhoz agriculture*. The development of the trade bond between town and country is an indispensable condition for the further strengthening of the alliance between the working class and the peasantry, for the provision of consumer goods to the urban and rural populations, and to the provision of industry with agricultural raw materials.

Based on socialist production, Soviet trade is at the same time a necessary condition for its development and strengthening. The growth of industrial and agricultural production and the increase in the population's demand for goods are not in themselves sufficient to ensure the steady growth of the socialist economy. "In order for the economic life of the country to be in full swing, and for industry and agriculture to have an incentive for the further growth of their products, it is necessary to have one more condition, namely, a full-scale *trade turnover* between the city and the countryside, between the districts and regions of the country, between the various branches of the national economy. It is necessary that the country be covered by a rich network of trade bases, shops, shops. It is necessary that through the channels of these bases, shops, and shops, goods

should circulate unceasingly from the places of production to the consumer.”<sup>162</sup>

Soviet trade links socialist production with popular consumption, bringing the increasing output of industry and agriculture to the consumers, and the growing demand of the population to socialist production. Under capitalism, the connection between production and consumption is carried out through the spontaneous mechanism of competition, through crises. Under socialism, thanks to the operation of the law of planned (proportional) development of the national economy, trade is able to carry out *a planned connection between production and consumption*.

Soviet trade rests, on the one hand, on the continuous expansion of socialist production, and, on the other, on the steady growth of the needs and purchasing power of the masses. The increase in the well-being of the population, the growth of the monetary incomes of the working people, and the systematic reduction of commodity prices create an ever-expanding demand for industrial and agricultural products. In view of this, Soviet trade does not know the difficulties inherent in capitalism in the sale of commodities and the crises of sales.

The Soviet state and its organs determine the volume and structure of the production of consumer goods, the sources and size of commodity funds, the rational routes for the movement of goods, and plan the trade network and its location. They distribute commodity resources among the districts, taking into account the purchasing power of the population, the composition of its incomes and expenditures.

From the very essence of Soviet trade follows the need for a comprehensive account of the demand of the population, the developing tastes of consumers, national and local peculiarities, climatic and seasonal conditions, etc.

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<sup>162</sup> J. V. Stalin, Report to the XVII Party Congress on the Work of the Central Committee of the All-Union Communist Party of Bolsheviks, Works, vol. 13, pp. 340 - 341.

Only in this way can the correct planning of the turnover of trade be ensured, so that the mass of goods arriving in each region meets the demand not only in total, i.e., in value terms, but also in terms of a specific assortment. that is, according to their use-values.

The correct organisation of the planning of the trade turnover presupposes the broad initiative of the local Soviet organs and local trade organisations in mobilizing commodity resources and supplying them to the population, and excludes excessive centralisation in the distribution of goods.

A reduction in the share of centralised distribution of consumer goods and an increase in the share of goods distributed locally lead to a greater correspondence between the delivery of goods and local demand, and strengthen the manoeuvrability and efficiency of trade organisations. Trade is designed to contribute in every possible way to the involvement of more and more additional local resources in the trade turnover.

The high level of purchasing power of the population in the USSR does not at all mean that any product is automatically guaranteed to be sold. With the growing prosperity of the masses, their needs become more and more diverse, and the demands of consumers for the quality of goods increase. Trade organisations are required to be able to quickly adapt to changes in demand, prevent mechanical distribution of goods, errors in their delivery to districts, steadily improve the culture of customer service, create convenience for customers and save their time.

The movement of goods in the country is determined by the location of production, the level and structure of consumer demand by districts. In this regard, the well-coordinated work of transport is of great importance, on which the speed of commodity circulation largely depends.

The purpose of Soviet trade is to exert an active influence on production in the interests of increasing the output of goods in accordance with the demand of the

population, to achieve an increase in their quality, expansion and improvement of the assortment. The most important levers of influence of Soviet trade on production are: economic contracts concluded between trade and industrial organisations for the supply of products of a certain range and quality, the widespread use of a system of pre-orders by trade organisations of industry, a thorough inspection of incoming goods, and the application of sanctions for violation of the terms of the contract, up to and including refusal to accept low-quality products.

Soviet trade actively influences the formation of consumer demand, contributing to the introduction of new goods into everyday life. At the same time, it uses advertising as a means of conscientiously informing consumers about the quality and purpose of certain goods, as opposed to capitalist advertising, which pursues the goal of profit at the expense of the consumer. An important factor in the formation of demand is the level and ratio of prices for goods sold to the population.

The division of labour between production and trade organisations, the assignment of the function of commodity circulation to trade and procurement organisations give socialist society great savings, contributing to the acceleration of the turnover of the social product and the reduction of funds employed in the sphere of circulation. This makes it possible to increase the funds allocated for the expansion of socialist production.

In addition to the function of commodity circulation, trade and procurement organisations also carry out transportation, storage, sorting, and packaging of goods, which is a continuation of the production process in the sphere of circulation.

The development of trade is of great importance for ensuring the personal material interest of the working people of the city and the countryside in the results of their labour and in increasing their productivity. Soviet trade is an



indispensable condition for the realisation of the economic law of distribution according to labour: the realisation of the monetary income of the working people takes place through Soviet trade. The development of Soviet trade and the quality of customer service largely determine the satisfaction of the needs of the working people in accordance with the incomes they receive.

Trade ensures a regular flow of funds to the state and kolkhoz sectors necessary for the resumption and expansion of production. The speed of the turnover of funds in the entire national economy largely depends on the speed of the sale of goods. Through Soviet trade, socialist industry, which produces consumer goods, receives funds that replace the costs incurred and constitute the net income of enterprises and the centralised net income of the state. The uninterrupted sale of goods through Soviet trade ensures the timely receipt of funds to the national fund for use throughout the national economy. The sale by kolkhozes and kolkhoz workers of their marketable products serves as a source of their monetary income, which is used to strengthen and develop the social economy of the kolkhozes and to satisfy the personal needs of the kolkhoz workers.

The development of Soviet trade, the increase in the quantity of goods sold at fixed planned prices, is the most important condition for strengthening the stability of Soviet money.

With the development of socialist production and the growth of the well-being of the population, trade turnover expands, its structure improves: the proportion of goods of higher quality and more valuable varieties increases, and the assortment is enriched.

The volume of retail trade turnover in the USSR from 1928 to 1940 increased (in comparable prices) by 2.3 times, while in capitalist countries during this period trade turnover not only did not increase, but on the eve of the Second World War was below the level of 1929. In 1953, retail trade turnover in the

USSR (in comparable prices) increased by 1.8 times against 1940, and by 1½ times against 1950, while in the USA in 1953 the volume of trade turnover was at the level 1950, and in England even decreased slightly.

In 1953, more was sold to the population in state and cooperative stores than in 1940: meat and meat products—2.5 times, fish and fish products—2 times, animal oil—2.5 times, vegetable oil and other fats—almost 3 times, sugar—more than 2.5 times, fabrics—more than 2 times. Including woollen fabrics—2.5 times, silk fabrics—almost 5 times, shoes—almost 2 times, watches—5 times, sewing machines—6 times, bicycles—9.6 times, radios—11 times.

In connection with the acceleration of the rate of development of Soviet trade in 1953-1954, the tasks of the fifth five-year plan in terms of the size of trade turnover were fulfilled in four years. From 1950 to 1955, the volume of commodities coming to the population from the state and cooperative trade network increased by about 2 times.

The fundamental tasks of the gradual transition from socialism to communism require the all-round expansion of trade and the development of Soviet trade. The Communist Party and the Soviet government are carrying out a system of measures for the further decisive upsurge of Soviet trade both in the city and in the countryside. The volume of trade and capital investment in trade are increasing on a large scale. Its material and technical base is being strengthened, and the warehouse and trade network, especially the network of specialised stores, is being widely deployed. The training of trade personnel is expanding, the organisation and planning of trade, and the system of remuneration of trade workers are being improved. All this contributes to the solution of the problem of all-round increase in the provision of the urban and rural population with consumer goods.

## The Main Forms of Trade Under Socialism.

Trade under socialism has three forms: (1) state trade, (2) co-operative trade, and (3) collective-farm trade.

State trade plays a decisive role in both wholesale and retail trade in the USSR. The overwhelming bulk of the country's commodity resources flowing into Soviet trade are concentrated in the hands of the socialist state. Trade organisations receive the bulk of their goods from state industry. As a rule, these goods pass through wholesale trade, then go to retail trade and are sold to the public.

The main source of raw materials for the industry that produces articles for personal consumption and the basis for the food supply of the population are state procurement and the purchase of agricultural products from collective farms. A major source of food and agricultural raw materials is also the products of state farms and payment in kind for the work of the MTS. In 1953, state trade accounted for 64.2 per cent of the country's total retail turnover. It serves mainly the population of cities and industrial areas.

State trade in goods for personal consumption is carried out by the trade network (shops, shops, bases, etc.) of the ministries of trade of the USSR and the Union republics, by the directorates of labour supply in transport, in the coal, oil, metallurgical, and other branches of industry, and by a specialised trade network of certain ministries in which the products of their enterprises are sold.

*Cooperative trade* is carried out by commercial enterprises of consumer and industrial cooperatives. The funds of cooperative organisations are the cooperative property of their members-shareholders. The cooperative trade organisations enjoy large credits from the Soviet state. In 1953, cooperative trade accounted for 25.4 per cent of the total retail trade turnover. The overwhelming part of the turnover of cooperative trade falls on the share of consumer

cooperatives, the rest on the share of industrial cooperation. Consumer cooperatives serve mainly the rural population and are the main trading organisation in the countryside. In addition, the rural population buys some of the goods in the cities. Consumer cooperatives play an important role in the procurement and purchase of agricultural products. Consumer co-operatives are called upon to assist the kolkhozes and kolkhoz workers in every possible way in the sale of their products and thereby to promote the growth of all branches of agriculture and the improvement of the material well-being of the working people.

State and cooperative trade also includes the turnover of *public catering* enterprises - factories - kitchens, canteens, restaurants, buffets, etc., which sell their products to the population. The development of public catering leads to a great saving of working time in the national economy; It replaces unproductive labour in the household with more productive, socialised labour and significantly improves the living conditions of the population. Public catering frees up millions of women employed in the household to participate in socialist production and social life. Public catering makes it possible to use food resources more rationally and economically and to organize nutrition on a scientific and hygienic basis.

State and cooperative trade is an *organised market* directly planned by the socialist state. The organised market occupies a dominant, determining position in the trade turnover of the USSR. In addition to the organised market, there is an *unorganised market* in the commodity turnover of the USSR in the form of collective-farm trade.

*Kolkhoz* trade is a form of Soviet retail trade in which kolkhozes and kolkhoz workers act as sellers, selling agricultural goods to the population at prices that arise on the market under the influence of supply and demand. The kolkhoz workers sell on the market a certain proportion of the products which they receive on the kolkhozes by working

days, or a part of the produce of their household farms. Kolkhoz trade is not directly planned by the state: the state does not give kolkhozes and kolkhoz workers planned tasks for the sale of their products at kolkhoz bazaars and does not set prices for the agricultural commodities they sell. But collective-farm trade is under the economic influence of state and co-operative trade. The expansion of trade turnover and the reduction of retail prices in state and cooperative trade entails a decrease in the level of prices in the kolkhoz market as well.

Collective-farm markets are affected within certain limits by the action of the market element. With the weakening of the economic regulatory influence of the state in certain kolkhoz markets, speculative elements may become more active. Taking advantage of the temporary shortage of certain commodities in a given market, speculative elements inflate market prices. With the growth of the marketable output of the kolkhozes, which are placed at the disposal of the state by means of procurement and purchases, with the development of sovkhos production, and with the increase in the quantity of food products in the state and cooperative network, the economic influence of the state on the unorganised market is becoming more and more intense.

Kolkhozes and kolkhoz workers sell part of their agricultural products on a commission basis through consumer cooperatives.

Kolkhoz trade is an important means of stimulating agricultural production and supplying food to cities and industrial settlements, supplying the population with a significant part of such products as vegetables, potatoes, meat, dairy products, etc. The share of kolkhoz trade in 1953 was equal to 10.4 per cent of the total retail turnover, and for food products, about 20 per cent.

## Prices and Costs of Circulation in State and Co-operative Trade.

The predominance of public ownership in the sphere of production and in the sphere of commodity circulation ensures that the socialist state is able to plan prices in all branches of the national economy. In the U.S.S.R., the prices of the organised market are established in a planned manner: procurement and purchase prices for the marketable products of the kolkhozes and kolkhoz workers, which they sell to state and co-operative organisations; wholesale prices for industry and trade organisations; Retail prices in state and cooperative trade, i.e., the final prices at which the population buys consumer goods. Prices are divided into all-Union (uniform for the whole country) and belt (differentiated by districts). Some products have seasonal prices.

The systematic reduction of *retail prices* is one of the principal means of raising the well-being of the masses. The sevenfold reduction in prices since 1947 has enormously increased the purchasing power and real incomes of the working people in town and country. Lower prices are an important factor in the planned impact on demand. When prices are reduced, the importance of a particular product for public consumption is taken into account. Lowering prices is used as a means of expanding the consumption of certain goods. The reduction of retail prices is based on the reduction of production and trade costs, as well as on the increase in the mass of goods sent by the state for sale to the population.

In the USSR, thanks to the systematic reduction of state retail prices, the amount of goods that cost 1 thousand rubles in 1947 can be bought for 433 rubles in 1954. In the USSR in 1954, retail prices for bread and animal butter were 3 times lower, for meat - almost 3 times lower, and for sugar - 2.3

times lower than at the end of 1947. At the same time, In the USA, England, France and most other bourgeois countries, prices for these goods have increased significantly compared to 1947.

Goods are supplied to the retail chain at wholesale prices. Trade organisations sell these goods to the public at retail prices. The difference between the retail price and the wholesale price is the trade margin. At the expense of this trade margin, the costs of circulation of trade organisations are reimbursed and their net income is formed. Thus, the retail price of trading organisations is equal to the wholesale *price plus the* trade margin. The trade margin is usually calculated in the form of a certain percentage of the discount on the retail price, and in some cases in the form of a surcharge on the wholesale price. Trade margins are planned by the state, their reduction pushes trade organisations to improve their work and reduce circulation costs.

The *cost of circulation* in Soviet trade is the monetary expression of the costs of trade enterprises in bringing goods to consumers. The costs of circulation in state and cooperative trade are planned by the state. Circulation costs include: the cost of depreciation (premises, inventory), the cost of storing, sorting and packing goods, the cost of transport, the wages of trade workers, etc.

In Soviet trade there are two kinds of costs of circulation. First, there are the costs associated with the continuation of the production process in the sphere of circulation (transportation, storage, packaging of goods); In contrast to capitalist trade, these costs occupy a predominant place in Soviet trade. Secondly, there are costs associated with the commodity form of products (servicing the processes of buying and selling, the costs of maintaining the monetary economy of trading enterprises, etc.). These two kinds of costs of circulation have different sources of reimbursement.

The source of reimbursement of the first type of circulation costs is the labour of commercial workers aimed at continuing the process of production in the sphere of circulation. This labour increases the value of goods, which covers the costs of transportation, storage, packaging, and other production functions performed by trading organisations. The second type of cost of circulation, i.e., the costs associated with the commodity form of production, is reimbursed by the net income generated in the branches of production. The level of wholesale prices of industry is fixed in such a way that a part of the net income of industry goes to trade organisations.

Thanks to the advantages of the planned socialist system of economy, the level of the costs of circulation, i.e., the ratio of the costs of circulation to commodity turnover, in the USSR is several times lower than in the capitalist countries, and the level of these costs is steadily decreasing. Soviet trade is free from enormous unproductive expenditures, which constitute the lion's share of the capitalist costs of circulation and are due to the anarchy of production, crises, competition, speculation, and the colossal excesses of advertising. In a socialist society, the process of movement of commodity flows is systematic, and production is provided with an ever-growing domestic market. All this leads to a sharp reduction in the time of circulation in the U.S.S.R., as compared with the bourgeois countries, in the number of links through which commodities pass from production to consumer. The rate of trade turnover in the USSR is about three times higher than in the capitalist countries, which results in considerable savings in resources.

In contrast to capitalism, which is characterised by the accumulation of huge surplus stocks of goods, under socialism the size of commodity stocks is determined in a planned manner in accordance with the needs of commodity turnover and the need to ensure a uniform and uninterrupted supply of goods to the trade network. This makes it possible to



prevent the formation of excess stocks of goods. As Soviet trade expanded, the cost of circulation became more and more low.

In the USSR, on the eve of World War II, the cost of circulation in wholesale and retail trade amounted to about 10% of retail turnover. In 1953, the cost of circulation in state and cooperative trade in the USSR amounted to about 8% of retail turnover.

Reducing the cost of circulation while improving the quality of customer service is an important source of saving social labour. It creates the possibility of additional diversion of funds to increase material production, expand trade turnover, and improve the culture of trade. The reduction of the costs of circulation is carried out on the basis of the mechanisation of labour processes in Soviet trade, the increase in its productivity, the development of socialist competition among trade workers for the improvement of the work of the trade network, and a more correct use of labour power. The Soviet state, by means of piece-rate and bonus forms of wages, materially stimulates the achievement of higher performance indicators by trade workers. Reducing the costs of circulation requires further improvement in the planning of trade turnover and the study of the demand of the population, the correct organisation of the delivery of goods to the trade network, and the expansion of trade in pre-packaged goods. Major factors in reducing circulation costs are the fight against losses in trade and procurement, which is associated with the expansion of the network of warehouses, elevators, refrigeration equipment, rationalisation of transportation and storage of goods. An important role in reducing the cost of circulation is played by a further reduction in the routes of movement of goods, a decrease in the number of links in the trade network and a more rational use of transport.

The reduction of the costs of circulation is inseparably linked with the strengthening of economic calculation in trading enterprises, which requires that trade enterprises work profitably, that is, that they have a net income (profit) with strict observance of the established prices. *The net income of socialist commercial enterprises* is fundamentally different from the capitalist commercial profit; It is created free from exploitation by the labour of trade workers (since their labour is a continuation of the process of material production in the sphere of circulation), as well as by the workers of socialist production (part of the trade margin has its source in the sphere of material production). This income is used for national needs (by means of deductions to the budget), for the expansion of the trade network, for increasing the funds of trade organisations, and for improving the material and cultural conditions of Soviet trade workers.

## Foreign Trade.

Under socialism, foreign trade is used to better meet the growing needs of society. It serves as an additional source of resources for the development of production and improving the supply of consumer goods to the population.

Foreign trade is the monopoly of the socialist state. In the USSR, all foreign trade operations are concentrated in the hands of a special state body, the Ministry of Foreign Trade, are subordinated to the tasks of socialist construction, and are carried out on the basis of state export-import plans, which form an integral part of the national economic plan. The monopoly of foreign trade is a necessary condition for the existence and development of a socialist economy.

At the present time the *monopoly of foreign trade in the U.S.S.R.* performs two main functions. First, it ensures the economic independence of the socialist country from capitalist encirclement, protecting its national economy and

the domestic market from the penetration of foreign capital and from the pernicious effects of economic crises and the forces of the world capitalist market. Secondly, it serves as an instrument of economic cooperation between the USSR and the people's democracies and as a means for the Soviet Union to assist these countries in their economic development. This new function of the monopoly of foreign trade arose with the formation of the world market of the countries of the democratic camp, which built their trade relations not on the basis of competition, but on the principles of fraternal mutual assistance.

The monopoly of foreign trade was a reliable protection for the economy of the USSR against the economic aggression of the imperialist countries. It played an important role in the industrialisation of the national economy of the USSR, supplying industrial enterprises with a significant number of imported machines. With the transformation of the USSR into an industrial power, the structure of its foreign trade changed significantly: industrial goods took a predominant place in Soviet exports, while agricultural raw materials prevailed in the exports of pre-revolutionary Russia. During the Fourth and Fifth Five-Year Plans, the USSR further increased the export of heavy industry products.

In its foreign trade, the Soviet Union consistently pursues the principles of respect for the national sovereignty of all countries, complete equality of arms, and mutual benefit. Proceeding from the possibility of the peaceful coexistence of the two systems, socialist and capitalist, the Soviet state regards the expansion of foreign trade relations as one of the most important means of bringing peoples closer together, easing international tensions, and strengthening the cause of peace.

Thanks to the enormous growth of socialist production in the U.S.S.R. and the emergence of a new world market in the democratic camp, the foreign trade turnover of the Soviet Union is steadily increasing from year to year. The foreign

trade of the USSR with the countries of the democratic camp is growing rapidly. It occupies a significantly predominant place in the total amount of foreign trade turnover of the Soviet Union. In 1952 the trade turnover with the capitalist countries amounted to  $\frac{1}{5}$ , and trade with the countries of the democratic camp  $\frac{4}{5}$  of the total amount of the USSR's foreign trade turnover.

The reduction in the trade turnover of the U.S.S.R. with the capitalist countries that has taken place in the past years has been more than compensated by the expansion of its trade with the countries of people's democracies.

The Soviet Union invariably adheres to the policy of developing business economic ties with the capitalist countries on mutually beneficial terms. However, the development of trade between the USSR and the capitalist countries is hampered by a policy of discrimination carried out under pressure from aggressive circles in the USA. The U.S.A. is pursuing a policy of renouncing trade relations with the U.S.S.R. and the people's democracies and is forcing all bourgeois countries dependent on them to adhere to this policy. This policy fails because it seriously harms the interests of the states that follow it. In 1953-1954 in a number of bourgeois states there was a tendency to expand trade relations with the Soviet Union and the countries of people's democracy.

In 1953, the USSR traded with 51 foreign countries, and trade with 25 countries was conducted on the basis of annual and multi-year trade agreements. In 1953, the foreign trade turnover of the USSR reached 23 billion rubles and was almost 4 times higher (in comparable prices) than the pre-war level. Along with the increase in trade between the USSR and the countries of the democratic camp, trade with a number of countries in Western Europe and the Near and Middle East increased significantly, with a further expansion of the range of exported and imported goods.

## BRIEF CONCLUSIONS

1. Trade in a socialist society is trade without capitalists and has as its aim the best satisfaction of the needs of the working people. Soviet trade is carried on in a planned manner, linking the growing socialist production with the increasing consumption of the people, the city and the countryside, the branches of the national economy, and the regions of the country.

2. There are two markets in the U.S.S.R.: the organised market, in the form of state and co-operative trade, and the unorganised market, to which collective-farm trade belongs. An organised market is directly planned by the state. It plays a decisive role in trade turnover. The unorganised market is not directly planned, but is economically regulated by the state.

3. Prices for commodities in state and cooperative trade shall be established in a planned manner. Prices in kolkhoz markets are formed depending on the ratio of supply and demand and are under the regulatory influence of state prices. The Soviet state is systematically lowering retail prices, which leads to a steady increase in the purchasing power of workers, employees, and peasants and to an increase in popular consumption.

4. Soviet trade is based on the principles of economic calculation and is much more economical than capitalist trade, since it is free from the enormous unproductive expenditures generated under capitalism by private property, competition and the anarchy of production.

5. Under socialism, foreign trade is a state monopoly and serves the tasks of strengthening and further developing the socialist economy. The monopoly of foreign trade in the USSR protects the socialist economy from the penetration of foreign capital and is a means of economic cooperation

*between the Soviet Union and the countries of the democratic camp.*

## **CHAPTER XXXVI. THE NATIONAL INCOME OF A SOCIALIST SOCIETY**

### **Total Social Product and National Income Under Socialism.**

Under socialism, the total social product is the entire mass of material goods - means of production and consumer goods - produced in society over a certain period of time, for example, in a year.

The aggregate social product is created by the labour of workers in the branches of material production: industry, agriculture, construction, transport, which serves production, as well as by the labour of trade workers who perform operations that are a continuation of the production process in the sphere of circulation (storage, processing, transportation, packaging of goods, etc.). Along with manual workers, mental workers (scientists, engineers, and so on) engaged in the branches of material production are also directly involved in the creation of material wealth.

In the non-productive branches, the aggregate social product is not created. Workers engaged in the non-productive sphere (public administration, culture, household, medical care of the population) do not produce material benefits. However, the labour of workers in non-productive sectors is necessary for socialist society, for material production, it is socially useful labour. The socialist state carries out the economic, organisational, cultural and educational work that is vital for society. Under socialism, the role of science in the development of technology and in the rise of production increases immeasurably. Of great

importance is the labour spent on the training of qualified personnel for production. Science, education, and the arts satisfy the cultural needs of the working people. The branches of domestic and medical services create the conditions for the successful work of workers in socialist society. Thus, in socialist society, there is a reciprocal exchange of activities between the workers of material production and the workers of the non-productive sphere.

The basis of the socialist system, as well as of any other system, is production, that is, the sphere of obtaining material goods necessary for the existence and development of socialist society. Therefore, the increase in the share of labour of workers engaged in the sphere of material production at the expense of a decrease in the share of labour employed in a number of non-production sectors is of the greatest importance to the national economy. For example, the bloating staff of the state administrative apparatus, the excesses in the number of administrative and managerial personnel in the collective farms, the high level of circulation costs - all this leads to the diversion of labour resources and, above all, qualified personnel from the sphere of material production. Such diversion of personnel from the sphere of production slows down the growth of national income and damages the national economy.

A systematic increase in the share of labour engaged in the sphere of material production, the all-round simplification and reduction of the cost of the administrative apparatus, and the reduction of the costs of circulation contribute to the growth of social wealth and the creation of an abundance of products necessary for the construction of a communist society.

Lenin considered the most important task of Soviet power to be "the systematic reduction and cheapening of the Soviet apparatus by reducing it, by means of a more perfect organisation, the abolition of red tape and bureaucracy, and the reduction of unproductive expenditures."

In the process of production, a part of the total social product is used to replace the means of production consumed. This part of the total social product embodies the expenditure of past labour transferred to the product from the expended means of production. After subtracting from the total social product that part of it which replaces the means of production consumed, there remains the part of the social product which constitutes the national income of society.

*Under socialism, the national income* is the part of the total social product created by the workers of socialist production, which remains after the replacement of the consumed means of production during a given period and embodies the newly expended labour.

The national income in *kind* consists of the total amount of means of consumption produced in the country for the satisfaction of the needs of society, and that part of the means of production produced for the expansion of socialist production in town and country.

At the same time, national income is in *the form of money*. In so far as commodity production exists under socialism, the national income as a whole and all its elements, regardless of their natural form, are measured in terms of value, expressed in terms of money. For this reason, not only the total mass of goods for personal consumption, but also the part of the national income consisting of the means of production, is expressed in the form of money.

As a result of changes in prices, the calculation of national income is made not only in current, but also in comparable (unchanging, constant) prices, for which the prices of a given year are assumed. The determination of national income in comparable prices makes it possible to identify real changes in the volume of national income over a number of years.

Under capitalism, the national income is produced by the labour of the exploited workers and is placed at the



disposal of the capitalists and landlords; They appropriate the lion's share of the national income in the form of unearned income, and only a smaller part of it goes to the working people. Under socialism, the national income is created by the labour of workers who are free from exploitation and belongs entirely to the workers. Socialism excludes the existence of unearned income.

The national income of a socialist society consists of a product for itself and a product for society. The product created by the workers of material production for themselves is distributed among them according to labour; It is used to meet the personal needs of socialist workers and their families. The product created by the workers of material production for society is the net income of socialist society, used for the expansion of production, the development of culture, health care, covering the costs of public administration, etc.

## **A Steady Increase In National Income Under Socialism.**

In a socialist society, there is a steady and rapid increase in national income. This increase in national income is the result of the continuous upsurge of socialist production, which is developing in accordance with the requirements of the basic economic law of socialism. National income in a socialist society grows many times faster than in a capitalist society.

The national income of the USSR, expressed in comparable prices, in 1940 exceeded the level of 1913 by 6.1 times, in 1950-by 10 times, and in 1953-by 13 times.

During the period 1930-1953, the national income of the United States, expressed in comparable prices, increased 2.3 times, and the national income of the USSR, also expressed in

comparable prices, increased more than 8 times during the same time, despite the huge damage caused to the national economy by the fascist invaders during the war.

Under socialism, the national income grows due to two factors: (1) the growth of the productivity of social labour, and (2) the increase in the number of workers in production. The bulk of the increase in national income in a socialist society is due to the growth of labour productivity. For example, during the years of the Fourth Five-Year Plan, 20 per cent of the increase in national income was obtained due to the increase in the number of production workers, and 80 per cent due to the growth of labour productivity.

The labour productivity of workers in socialist production is growing rapidly as a result of the introduction of the latest technology in all branches of production (including agriculture), the improvement of the organisation of labour and production, the growth of the qualifications of workers, collective farmers, and the intelligentsia, the systematic improvement of the well-being of the working people, and the development of socialist competition.

The growth of the productivity of social labour requires the planned and rational use of material and labour resources and, in particular, the economy of means of production. The economy of the means of production reduces that part of the total social product which is used to replace the means of production consumed. This makes it possible to increase another part of the total social product, which is the national income.

An important factor in the growth of national income is the increase in the number of workers employed in the branches of material production. In socialist society, where, unlike capitalism, there are no exploiting classes and their numerous servants, there is no unemployment, there is no excessive diversion of labour power into the sphere of circulation, etc., a much larger part of the adult able-bodied population is employed in the branches of material

production that create the aggregate social product. At the same time, under socialism, the number of workers employed in the fields of science, education, art, and public health is growing. In socialist society, all the achievements of material and spiritual culture are the property of the people, while in capitalism they constitute the monopoly of the exploiting classes.

In the USSR, there has been no unemployment for a long time, and in the United States in 1950 - 1952, the unemployed, translated into year-round unemployment, made up an average of 13% of the working-age population

Of the working-age population working in non-industrial sectors, in the USSR more than half are employed in the field of culture and health, and in the United States one-seventh of those working in non-industrial sectors are employed in the field of culture and health.

Under socialism, the growth of national income is the most important indicator of an increase in the well-being of the working people, since it is accompanied by an increase in the incomes of the workers, peasants, and intellectuals. Under capitalism, the growth of the national income cannot serve as an indicator of the growth of the well-being of the working people, since an ever-increasing part of the national income is appropriated by the capitalists and large landowners, and the share of the working people in the national income is increasingly decreasing.

The volume of national income, taken at comparable prices, in the USSR increased in 1952 in comparison with 1945 by  $2\frac{1}{2}$  times, while the real wages of workers and employees increased by 2.2 times. In the United States, the volume of national income at comparable prices increased by only 10% in 1952 compared to 1945, and the real wages of workers and employees declined, while the profits of monopolies doubled.

## Distribution of National Income.

The national income created in the process of socialist production is distributed and used in the final account for national consumption and socialist accumulation. In contrast to capitalism, under socialism, “the distribution of the people’s income takes place not in the interests of enriching the exploiting classes and their numerous parasitic servants, but in the interests of systematically improving the material condition of the workers and peasants and expanding socialist production in the city and countryside.”<sup>164</sup>

The distribution of national income in a socialist society is as follows. Initially, the national income takes various forms of income in the sectors where it is created, that is, in the sphere of material production - in the state sector and in the cooperative-kolkhoz sector of the national economy.

The national income generated in the public sector of the national economy is divided into two main parts. One part of this income, which is the product created by the workers of material production for themselves, takes the form of the wages of the workers and employees of the state production enterprises. The other part of the national income generated by the public productive sector is the product for society, or net income. The net income of the public productive sector comes in two main forms: (1) in the form of the net income of state-owned enterprises (the so-called profits of enterprises) and (2) in the form of the centralised net income of the state (the so-called turnover tax, deductions from profits, payroll charges for social insurance purposes, etc.).

The national income created in the kolkhoz social economy is the property of the kolkhozes and also consists of two main parts: one part is the product for itself, the other

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<sup>164</sup> J. V. Stalin, Political Report of the Central Committee to the XVI Congress of the CPSU (B), Works, vol. 12, p. 321.

part is the product for society. The product for itself, created by the labour of the kolkhoz workers in the social economy of the kolkhozes, takes the form of income in kind and in money, distributed among the kolkhoz workers according to the workdays. In addition, kolkhoz workers receive income in kind and money from their work in their personal household farms. The product for society created on the kolkhoz represents the net income of the kolkhoz. Part of the net income of the kolkhoz is used for the development of kolkhoz production, for the satisfaction of the general kolkhoz needs and the material and cultural needs of the kolkhoz workers. The other part of the net income generated in the kolkhoz sector is converted, through the price mechanism and through the income tax, into the centralised net income of the state. In this way the kolkhozes participate in the general public expenditures of the state for the expansion of production in town and country, for the development of culture, for the strengthening of the country's defence, and so forth.

Consequently, the total amount of the centralised net income of the state embodies not only a part of the labour for society expended by the working class, but also a part of the labour for society expended by the collective-farm peasantry.

The product created by the labour of the workers of the industrial production cooperatives takes the form of their wages, and the product for society takes the form of the net income of the cooperative trade enterprises. Part of this income is used to expand production and meet the needs of members of trade artels. The other part is converted into a centralised net income of the state through turnover tax and income tax.

Thus, in socialist society, various forms of income are formed, which are obtained directly in the sphere of material production. One part of the national income, which constitutes the product created by the workers of production

for themselves, is distributed according to labour, taking the form of wages of workers and employees engaged in production, personal incomes of collective farmers, and wages of workers in handicraft cooperatives. The other part of the national income, which constitutes the product created by the workers of production for society, or the net income of society, takes the form of: the net income of state enterprises, the net income of collective farms and cooperative enterprises, and the centralised net income of the state. Moreover, as has been said, a certain share of the net income of enterprises in the process of distribution of national income is transformed into the centralised net income of the state.

In the process of further distribution of national income, mainly through the state budget, part of it is converted into income from non-productive sectors and the workers employed in them.

In a socialist society, the state spends large sums of money to satisfy a number of social needs: education, public health, the maintenance of the state apparatus, the strengthening of the country's defence capability, and so on. Without this, it would not be able to meet the growing needs of the population. Hence the economic necessity of concentrating in the hands of the state a considerable part of the national income in the form of a fund of money spent for these purposes. This fund is formed almost entirely from the centralised net income of the state. Only a very small part of this fund is formed from the revenues of the population (taxes and loans). The main role in concentrating funds in the hands of the state and distributing them for public needs is played by the state budget.

Part of the net income of society, spent by the state on socio-cultural needs and administration, takes the form of salaries of workers in science, education, health care, as well as employees of the state apparatus and military personnel. A significant part of the cultural and living needs of the

urban and rural population (education, health care) is met free of charge, at the expense of the state. Some cultural and domestic institutions and enterprises reimburse their expenses by paying for the services provided to them by the population. The state pays pensions, allowances, scholarships, various benefits, leave with pay, etc. In this way, the real wages of workers and employees, as well as the real incomes of the peasants, increase.

In the final analysis, the entire national income of a socialist society is divided into a consumption fund and an accumulation fund.

*The consumption fund* is that part of the national income which is used to satisfy the growing material and cultural needs of the workers, peasants and intellectuals. The consumption fund is formed primarily at the expense of the product created by the labour of the workers of production for themselves. In addition, a significant part of the consumption fund is formed by the state, collective farms, and cooperative associations at the expense of the product for society, which is spent on social and cultural needs. An increase in the consumption fund is the basis for the growth of workers' incomes.

The incomes of the workers, peasants and intelligentsia under socialism increase steadily and rapidly for the following reasons: (1) the continuous expansion of production makes it possible to draw in additional workers from the growing population every year, which is accompanied by an increase in the aggregate income of the working people; (2) the average earnings of workers and office workers and the average income of kolkhoz workers are increasing every year; 3) allocations from the state budget for culture, education and health care are increased; At the same time, the real incomes of the working people in socialist society grow even faster than the nominal (monetary) incomes, since the state systematically reduces the prices of consumer goods.

The source of the steady rise in the material and cultural standard of living of the working people is the rapid and continuous growth of production. In order to ensure such an increase in production, it is necessary to turn a part of the national income into an accumulation fund.

*The accumulation fund* is a part of the national income of socialist society that is used to expand and improve socialist production in town and country, to increase non-productive funds for cultural and domestic purposes, including housing, and also to create reserves. In this way, the accumulation fund provides the material conditions for the growth and improvement of socialist production on the basis of higher technology and for the further improvement of the well-being of the people.

In order to meet their personal material and cultural needs, both at the expense of the product for themselves and at the expense of the product for society, the workers of the U.S.S.R. receive about three-quarters of the national income. The rest of the national income is used for socialist accumulation in the city and in the countryside.

## BRIEF CONCLUSIONS

1. *The national income of a socialist society is that part of the total social product in which the newly expended labour of the workers, peasants and intellectuals engaged in production is embodied. In contrast to capitalism, all national income under socialism belongs to the working people.*

2. *National income under socialism grows much faster than under capitalism, since socialism is freed from the anarchy of production, waste, and economic crises inherent in capitalism and ensures the planned and rational use of material and labour resources. The growth of national income is achieved, firstly, by increasing the productivity of*



social labour, and secondly, by increasing the number of workers employed in the branches of material production.

3. The distribution of the national income takes place in accordance with the requirements of the basic economic principle of socialism and leads to a rapid increase in the incomes of the working class, the peasantry and the intelligentsia. One of the important factors in the growth of workers' incomes is the expenditure of the state, collective farms, cooperative associations, and public organisations on the social and cultural needs of the population. The growth of national income under socialism is one of the main indicators of improving the well-being of the working people.

4. The national income of socialist society is divided into the consumption fund, which is used to satisfy the continuously growing material and cultural needs of the people, and the accumulation fund, which creates the material conditions for the rapid growth and improvement of socialist production on the basis of higher technology.

## CHAPTER XXXVII. THE STATE BUDGET, CREDIT, AND THE CIRCULATION OF MONEY UNDER SOCIALISM

### **The Financial System of Socialism.**

The existence of commodity production and commodity circulation under socialism leads to the fact that the output of all socialist enterprises is expressed not only in kind, but

also in money (value) form. Socialist enterprises, both state-owned and cooperative-kolkhoz, receive money for their products, which they use to reimburse the costs incurred (depreciation, purchase of raw materials, fuel, materials, wages, and so on) and to expand production. In this way, in socialist enterprises, certain funds of money are formed and spent. This constitutes the financial side of the economic activity of socialist enterprises.

Part of the funds of enterprises goes to the national fund, which is distributed centrally to meet public needs and to develop the national economy and culture.

Temporarily free funds of enterprises are mobilised and used in a centralised manner through credit authorities.

All this means that under socialism there is an extensive financial system. *The financial system* of socialism is a system of planned formation and distribution of funds in the socialist national economy. It includes the state budget, credit, state social insurance, state property and personal insurance, and the financial economy of state enterprises, collective farms, and industrial cooperatives.

The material basis of the financial system is socialist production. The financial system is based on the growth of industrial and agricultural output and on the expansion of trade turnover.

With the help of the financial system, the total social product in the form of money is distributed among the

sectors of socialist production, between branches and enterprises, and between society as a whole and its members. At the same time, the financial system is called upon to ensure the most rational use of the resources of the socialist economy in the interests of the continuous growth of production, the steady improvement of the material and cultural standard of living of the people, and the strengthening of the power of the socialist state. Through the financial system, the socialist state exercises control in the ruble over all economic activities of enterprises and sectors of the economy. The financial system contributes to the strengthening of the regime of economy, economic accounting, and financial discipline in the national economy.

### **The Budget of a Socialist State.**

The leading place in the financial system of socialism is occupied by the state budget. Under socialism, the *state budget* is the main form of planned formation and use of a centralised fund of monetary resources in order to meet the growing needs of the entire society. The state budget has a revenue part, which consists of funds that come to the centralised disposal of the state, and an expenditure part, which provides for the use of these funds for the needs of society. A significant part of the national income is distributed through the state budget.

The state budget is the basic financial plan, which is a reflection of the national economic plan. By means of the budget, the socialist state mobilizes the funds of the national economy and distributes them among enterprises and branches depending on the planned tasks and the progress of their fulfilment.

The state budget is based on the development of the entire socialist national economy. First of all, it is inextricably linked with the financial economy, revenues and

expenditures of state-owned enterprises. Most of the net income of society generated in these enterprises goes to the state budget. Capital construction in all branches of the national economy and the growth of fixed and circulating assets of state-owned enterprises are largely ensured at the expense of the budget. The relationship between the state budget and the collective farms is of great importance. Part of the net income of the collective farms goes to the budget and is used for national needs. The state, through the budget, provides financial assistance to the kolkhoz sector in the development of production, maintains schools, hospitals, and other social and cultural institutions serving kolkhoz workers.

*The revenue* part of the state budget of the U.S.S.R. has as its main source the net income of society, namely, that part of it which is the centralised net income of the state. In 1953, revenues from the net income of society (revenues from the socialist economy) amounted to 85% of all budget revenues.

The centralised net income of the state goes to the state budget in the form of the so-called turnover tax, deductions from the net income (profits) of state enterprises, accruals on wages for the needs of social insurance, income tax on collective farms and other cooperative enterprises, and so on.

One of the sources of revenue for the State budget is also the funds of the population, which come to the budget in the form of taxes and loans. *Taxes* on the population are a form of mandatory transfer to the budget of a part of the personal income of members of society. In contrast to capitalism, in a socialist society taxes on the population constitute only a very insignificant part of the income of the working people and are used for the needs of the whole people. In 1953, tax payments of the population amounted to only 8.5% of all revenues of the state budget of the USSR. All kinds of payments and benefits received by the population from the

budget cover the amount of taxes from the population by several times. For example, in 1953 the working people of the USSR received three times more from the state budget than they contributed to the budget in the form of taxes, fees, as well as by subscribing to a loan.

In the U.S.S.R., some of the working people are completely exempt from paying taxes, and the rates of taxation depend on the amount of income. In 1954, the agricultural tax on peasants amounted to less than 1% of state budget revenues; in 1954, the amount of tax levied on the rural population was reduced by more than 2.5 times compared to 1952.

In a socialist society, *state loans* are a form of attraction by the state of funds of the population for the needs of the entire society, with the obligation to repay these funds after a certain period. By subscribing to a loan, workers voluntarily transfer part of their personal income to the state for temporary use. At the same time, loans are a form of savings for workers and bring income to the population in the form of winnings and interest. In the state budget of the USSR in 1954, revenues from this source amounted to 3% of all revenues.

*The expenditure part* of the budget consists of state financing, i.e. irrevocable disbursement of funds, for the following main purposes: 1) development of the national economy, 2) social and cultural measures, 3) ensuring the defence capability of the state, and 4) maintenance of state administration bodies. The bulk of the state budget of the USSR is used to finance the national economy and social and cultural activities. In the postwar years, more than two-thirds of all expenditures of the state budget of the USSR were directed to these purposes.

Budget financing is one of the largest factors in the development of the economy of the Soviet Union. Between 1946 and 1953, state budget expenditures on the national

economy amounted to about 1,248 billion rubles. Budget funds are used for the development of heavy industry, the expansion of the production of consumer goods, and the development of agriculture. The socialist state annually spends huge budget funds on capital investments in all branches of the economy. The state budget of the USSR finances the extensive capital construction of new plants, mines, factories, electric power stations, state farms, MTS, railroads, communal enterprises, dwellings, schools, hospitals, sanatoriums, and so forth. At the expense of the budget, state material reserves are created, which are necessary for the planned conduct of the national economy and for the needs of the country's defence.

A significant share of the budget is spent on social and cultural activities, which serves as an important source of systematic improvement of the material and cultural standard of living of the people. To this end, funds are allocated from the budget for the development of science, education, health care, physical culture, pensions and benefits, etc.

In the five postwar years (1946-1950) alone, the Soviet state spent 524.5 billion rubles on social and cultural activities, and 371 billion rubles in the three years of the Fifth Five-Year Plan.

Part of the budget in a socialist society is spent on the maintenance of the state apparatus, which carries out multifaceted activities in the field of economic and cultural construction. The implementation of the austerity regime in the interests of expanding production and satisfying the growing needs of the people requires an all-round reduction in the cost of the administrative and managerial apparatus. Proceeding from this, the socialist state consistently pursues a policy of rationalizing the administrative and administrative apparatus and reducing the cost of its maintenance.

In the USSR, in 1932, expenditures on the maintenance of state administration bodies accounted for 4.2% of all budget funds, in 1940—3.9%, in 1953—2.8%. Part of the budget is spent on strengthening the country's defence. In the Soviet Union, which consistently pursues a policy of peace, spending on the Armed Forces accounts for a relatively small share of the budget. According to the 1954 budget, 17.8% of the total budget expenditures are provided for these purposes, while in the United States, military expenditures in 1953/54 exceed 70% of the total budget.

The fulfilment of the budget is directly dependent on the course of output, the sale of goods, the reduction of the costs of production and circulation, and the growth of savings, and, consequently, on the extent to which domestic production reserves are used in the national economy and economic calculation is applied.

In the course of budget execution, the financial authorities are called upon to control in rubles the fulfilment of economic plans, the observance of the regime of economy and financial discipline in the national economy. This control is carried out both when determining the amount of deductions to the budget and when verifying the fulfilment of obligations to the budget. Financial bodies analyse the economic activities of enterprises and organisations, reveal their shortcomings, check to what extent the safety of public funds and the correctness of their spending are ensured, what is the state of accounting and financial reporting of enterprises, and fight against excesses in the use of resources. At the same time, the disbursement of funds to business organisations is often made depending on the quality of their work.

The state budget of the USSR includes: 1) the all-Union budget and 2) the state budgets of the Union republics, which in turn consist of: a) republican budgets and b) local budgets. The leading place in the entire budget system is occupied by the all-Union budget, which concentrates the bulk of budget

resources. This budget structure makes it possible to implement the principles of democratic centralism and correct national policies in a multinational socialist State. The state budget of the U.S.S.R. is drawn up for a year and approved as a law by the Supreme Soviet of the U.S.S.R. The budgets of the Union Republics are approved by the Supreme Soviets of these Republics.

Thus, under socialism, the essence of the state budget has changed radically. The budgets of the capitalist states are an instrument for the additional exploitation of the toiling masses, for the enrichment of the monopolies, and are used for the militarisation of the economy, the arms race, and the maintenance of the parasitic state apparatus of the bourgeoisie. In accordance with the basic economic law of socialism, the budget of the socialist state is aimed at satisfying the growing material and cultural needs of the entire society and serves as a powerful factor in the growth of the peaceful economy and the growth of the productive forces. "The profits squeezed out of the people's labour by the exploiters now remain in the hands of the working people and are used partly to expand production and attract new groups of working people to production, and partly to directly increase the incomes of the workers and peasants."<sup>165</sup>

The state budget in a socialist society grows systematically on the basis of a steady rise in the national economy. The rapid and continuous growth of the national income under socialism leads to a steady increase in the part of it that goes to the state budget. Thus, the revenues of the state budget of the USSR in 1954 were more than three times higher than the revenues of the budget of the pre-war 1940. As a rule, the budgets of capitalist countries are in deficit. The budget of the U.S.S.R. is not only deficit-free, but is

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<sup>165</sup> J. V. Stalin, Report to the XVII Party Congress on the Work of the Central Committee of the CPSU (B), Works, vol. 13, p. 334.



constantly being executed with a considerable excess of revenues over expenditures.

To a certain extent, the centralised distribution of funds is carried out through the systems of state social insurance and state property and personal insurance.

*State social insurance* is a form of material security for workers, employees and members of their families in the event of temporary or permanent disability. It includes the provision of free medical care, the maintenance of rest homes, sanatoriums, hospitals, and so forth. Social insurance for workers and employees in the USSR is carried out by the trade union bodies at the expense of the state or the corresponding cooperative organisations. The source of social insurance funds is the net income of society, which is in the form of contributions from enterprises, organisations and institutions, calculated as a certain percentage of the total amount of wages of workers and employees (accrual on wages). State social insurance funds, both in the revenue and expenditure parts, are included in the State budget and spent by the trade unions. Social insurance costs are rising steadily and rapidly. In 1953, the amount of these expenditures exceeded the level of 1940 by almost 2.6 times.

*State property and personal insurance* is a form of compensation and prevention of losses incurred by citizens, enterprises and organisations from natural disasters and accidents. Property and personal insurance in the USSR is a state monopoly and is carried out by the insurance authorities primarily for the population, kolkhozes, and cooperative farms. The main source of insurance funds is insurance payments from the population, enterprises and organisations.

## Credit Under Socialism.

One of the indispensable economic instruments of a socialist society is credit. The existence of credit is connected with the fact that, on the one hand, temporarily free funds are formed in the national economy, and on the other hand, there arises a temporary need of socialist enterprises for additional funds.

This is primarily due to the fact that in the process of circulation of funds of socialist enterprises, the terms of receipt of cash proceeds from the sale of products and the terms of monetary expenditures for production needs do not coincide. Part of the funds of enterprises is constantly in the form of money, but it is spent at certain intervals. As the products are sold, funds are accumulated for the purchase of raw materials and fuel, the stocks of which are periodically renewed. The wage bill is constantly accumulating as products are sold, and wages are usually paid twice a month. The sinking fund is systematically accumulated in the form of money, and is spent on the purchase of new machinery, equipment, construction of buildings or their major repairs only at certain intervals. The net income of enterprises is used for capital construction after a sufficient amount has been accumulated for this purpose. Thus, state-owned enterprises have temporarily free funds. Temporarily free funds are also available in the kolkhozes in the form of deductions from monetary income to indivisible funds of sums intended for future expenditure, money incomes not yet distributed among kolkhoz workers, etc. In the course of budget execution, temporarily free funds appear in the form of excess of income over expenditures, balances in the current accounts of budgetary institutions, and special budget funds. The growth of workers' incomes is also accompanied by the formation of more and more significant free cash resources.

At the same time, socialist enterprises and economic organisations periodically have a temporary need for money, for example, for seasonal expenses, the procurement of raw materials, etc.

*Under socialism, credit is a form of mobilisation by the state of temporarily free funds and their planned use, on the terms of repayment, to meet the needs of the national economy. In contrast to capitalism, there is no loan capital in a socialist economy; For the most part, the money flowing into the credit system is the public property of enterprises, and the rest is the personal property of workers. These funds are used to serve the socialist enterprises and the toiling masses. Under socialism, credit is carried out in a planned manner. Its size, sources, and direction are determined by the credit plan.*

Temporarily free funds are mobilised in socialist society by state credit institutions: banks and savings banks. Thus, enterprises that are on economic settlement are obliged to keep their funds in a current account with the State Bank. The funds of the kolkhozes are deposited in current accounts in the State Bank or in savings banks. The monetary savings of socialist enterprises are also concentrated in special banks (for example, deductions from state enterprises for new construction, indivisible funds of collective farms, and so on). The State Bank holds the free funds of the budget, the funds of state institutions, trade unions, insurance, etc. Credit serves as a form of mobilisation of the free funds of the population by attracting deposits to state savings banks.

Credit provided by banks is divided into short-term and long-term: short-term credit serves the movement of working capital of *state-owned* enterprises, collective farms and other cooperative enterprises; *Long-term* - serves mainly the field of capital construction. In the form of long-term credits, the state provides assistance to kolkhozes and cooperative associations (for economic development) and to working people (for individual housing construction, kolkhoz

workers for the purchase of cows, and so on). Kolkhozes and cooperative associations also derive long-term credit from their own savings. State-owned enterprises receive funds from the state for capital investments in the form of irrevocable budget financing and partially carry out capital investments at the expense of their own resources: from the depreciation fund and the net income of enterprises.

In accordance with the plan, enterprises and economic organisations receive loans in the form of direct bank credit. Each company can get a loan only from a bank. Commercial credit, i.e., the sale of goods by enterprises to each other on credit, does not exist in the USSR. The bank issues a loan to the company for certain economic activities, for example, for the seasonal procurement of raw materials, for the creation of temporary stocks of work-in-progress or finished products. This form of lending provides a direct link between the banks' credit and the processes of production and circulation.

Direct short-term lending by the bank to enterprises and economic organisations is based on the following basic principles: 1) repayment of the loaned funds within a certain period, 2) targeted nature of the loan, 3) security of the loan issued by the bank with material values. The requirement for repayment and maturity of loans stimulates the acceleration of the turnover of funds by economic organisations and enterprises and contributes to the control of the ruble by the bank.

The requirement to secure the loan with certain material values allows the bank to control the correct and targeted use of the loan, and links the loan with the movement of material resources.

Banks pay a certain interest rate on deposits and charge a slightly higher interest rate on loans. In a socialist economy, interest is a part of the net income of an enterprise paid for the temporary use of borrowed funds. In contrast to capitalism, where the level of interest is formed

spontaneously, as a result of competition, in a socialist economy the amount of interest is determined by the state in a planned manner. At the same time, the state proceeds from the need to ensure the material interest of enterprises and organisations in keeping free funds in banks, as well as in the most expedient and economical use of their own and borrowed funds.

Credit granted to state-owned enterprises is of great importance for the organisation of production. A significant part of the working capital of enterprises is formed at the expense of the loan. Credit contributes to the growth of socialist production and to the acceleration of the turnover of funds.

*Cashless payments* are widely used in socialist society. Cash settlements between enterprises and organisations are carried out by banks by transferring sums of money from the accounts of some enterprises or organisations to the accounts of others on behalf of account holders. The planned centralisation of settlement and credit functions makes it possible in the USSR to employ internal clearing settlements on a huge scale that is inaccessible to capitalism, i.e., the set-off of mutual claims of economic organisations. In the U.S.S.R., cash settlements between enterprises are used only for small payments. The development of non-cash payments replaces cash in economic circulation and thereby reduces the amount of money required for circulation in the national economy. Cashless payments accelerate the circulation of money and the entire social product, and contribute to the strengthening of the monetary system.

Under socialism, credit is a powerful instrument of control by the ruble by the state over the activities of enterprises and economic organisations. Lending is associated with preliminary and subsequent checks of the company's financial position. At the same time, the credit authorities check the fulfilment of income and accumulation plans, the expenditure of own and borrowed working capital for the

intended purpose, etc. When issuing a loan, the credit authorities check how the company uses its funds, how it observes payment discipline, how strong the financial basis of the enterprise is for the use of credit. Credit authorities are taking measures to strengthen payment discipline, economic accounting and economy at enterprises.

## **Banks in a Socialist Society.**

Credit in the national economy of the USSR is carried out by banks and savings banks. Banking is concentrated in the hands of the socialist state. *In* a socialist society, banks are state institutions that carry out the planned mobilisation of temporarily free funds and the use of these funds for the development of the socialist economy. Thus, banks under socialism, while retaining their old form, changed their content and acquired new functions in comparison with capitalist banks.

The banking system of the Soviet Union includes the State Bank of the USSR and special state banks for long-term investments. The State Bank plays a leading role in the banking system.

*The State Bank* of the USSR is the issuing bank, the bank of short-term credit, and the settlement center of the country. It performs the following functions:

First, it regulates the circulation of money, the movement of cash in the country, and carries out both the withdrawal of money from circulation and the *issue of money* according to a plan and in accordance with the procedure determined by the government *of the USSR*.

Secondly, it provides cash services to the national economy, i.e., it concentrates in its cash desks the cash of socialist enterprises, state and public organisations and issues *cash* to them for current payments.

Thirdly, it provides *short-term credits* to enterprises and economic organisations of all branches of the national economy (except for construction organisations) that are engaged in economic accounting.

Fourthly, it serves as a *settlement centre*, that is, it organizes and carries out monetary settlements in the country between enterprises, institutions and organisations.

Fifth, it carries out cash execution of the budget: accepts the amounts of payments to the state budget, issues budget funds strictly for their intended purpose and within the limits of open appropriations, keeps records of *budget* revenues and expenditures.

Sixth, it holds the *country's foreign exchange funds* and makes international settlements for trade and other economic operations of the USSR with foreign countries; some of these settlements are made through the bank for foreign trade of the USSR (Vneshtorgbank).

The State Bank of the USSR is the largest bank in the world. Its institutions are located in republican, krai, oblast and almost all district centres of the country. Through the organisation of settlements through current accounts and through credit operations, the State Bank fulfils its role as the most important body of the state for the control of the ruble over the financial and economic activities of enterprises and organisations.

*Long-term investment banks* serve individual branches of the socialist economy. Their main function is to finance and provide long-term crediting for capital investments of enterprises in the relevant industries. All funds allocated in a planned manner for capital investments are concentrated in the respective banks. These banks make all construction calculations, issue funds for construction work and control their expenditure in accordance with the plan.

In the USSR, there are: a bank for financing capital investments of state-owned enterprises and construction organisations of industry, transport and communications

(Prombank); a bank for financing capital investments of state-owned enterprises and organisations of agriculture and forestry, for long-term lending to collective farms and rural populations (Selhozbank); a bank for financing capital investments of trade and cooperation (Torgbank) and others. Central Bank for Financing Public Utilities and Housing Construction (Tsekombank).

Banks use the ruble to control production and circulation, thereby helping to strengthen the regime of economy and economic accounting. This control is exercised, firstly, by financing and crediting such measures as are provided for in the plan and depending on the progress of the implementation of the plan; secondly, by requiring the repayment of loans in accordance with the deadlines for the implementation of planned tasks; Thirdly, by applying appropriate sanctions in case of violation of the procedure for the use of funds and the term of repayment of the loan (for example, charging an increased interest rate and depriving the right to further lending).

Improvement of the economic activity of enterprises and strict implementation of the austerity regime require further strengthening of ruble control by banks over production and active influence on those enterprises that allow mismanagement.

The activities of banks are carried out on the basis of economic calculations. The net income of the bank is the difference between the amount of interest received, on the one hand, and the amount of interest paid, as well as the cost of maintaining the banking apparatus, on the other hand.

On the basis of the growth of the socialist economy and the development of credit relations, the turnover of the banks is steadily increasing. By the end of 1953, the total amount of credit investments of the State Bank in the national economy amounted to 208 billion rubles, 3.7 times higher than in 1940.



*State savings banks* accept cash deposits from individual citizens, as well as from collective farms and public organisations, paying a certain percentage on deposits.

The systematic growth of the population's deposits in savings banks is an indicator of the continuous improvement of the material well-being of the working people. By the end of 1953, the amount of deposits of the population in savings banks amounted to 38.6 billion rubles, which is 5.3 times higher than in 1940.

## **Money Circulation Under Socialism.**

Soviet money is a sign of gold. The stability of Soviet money, as has already been said, is ensured primarily by the existence in the hands of the state of huge masses of commodities that are put into circulation at fixed prices. In addition, the Soviet currency is backed by gold.

Soviet money is traded in the form of bank notes in denominations of 10, 25, 50 and 100 rubles. The banknotes are backed by gold, precious metals and other assets of the State Bank of the USSR. In addition to the banknotes in circulation, there are state treasury notes in denominations of 1, 3 and 5 rubles and small metal change coins.

Money circulation in a socialist economy is carried out in accordance with the economic law, according to which the quantity of money required for commodity circulation is determined by the sum of the prices of the circulating commodities and the velocity of money turnover. Cashless payments carried out in the process of circulation of goods reduce the need for cash. The total amount of money in circulation required by society for a given period is also dependent on the amount of current cash payments made in the society during a given time. Such payments in a socialist society include: payment of wages, payment of cash income for workdays, payment of winnings, and others. Current

payments of the population are: rent payments, payment of taxes, deposits and others.

Thus, the quantity of money required for circulation in a socialist economy is determined by the sum of the prices of commodities sold for cash, the velocity of turnover of monetary units, and the amount of current payments in cash.

Relying on the economic law of money circulation, the socialist state carries out the planned management of the circulation of money in the country. The planning of money circulation in the USSR, which is an indispensable component of the planning of the national economy as a whole, is carried out by the government, and the operational regulation of the circulation of money is carried out by the State Bank. In the Soviet Union, the issue of money is strictly centralised, the State Bank of the USSR issues money into circulation, and the issue of money, that is, each additional issue of money into circulation by the State Banks, is carried out by decision of the government. The bulk of the cash issued

In accordance with the plan, it is used by the State Bank to pay wages, to pay for workdays, to pay for procurement and purchases of agricultural products from collective farmers. On the other hand, the main channel through which cash is returned to the bank is the revenue of trade organisations, which provides more than four-fifths of all receipts to the cash desks of the State Bank, as well as the revenue of utilities, transport and communications, which is transferred to the bank on a daily basis.

Cash is also issued from the State Bank for the payment of interest, winnings and redeemable bonds of state loans, for the payment of pensions, allowances, insurance remuneration, for the payment of minor bills, etc. The State Bank regularly receives sums of money for taxes and other payments to the budget, for deposits in savings banks, for insurance premiums, etc. Thus, the money supply passes through the cash desks of the State Bank without interruption.

The correlation between the monetary incomes of the population, on the one hand, and the volume of turnover, as well as paid services provided to the population, on the other hand, is one of the main conditions influencing money circulation. In order to identify these correlations and to ensure the necessary proportions between the growth of the population's monetary incomes and the growth of the opposing mass of commodities and paid services, a balance of the population's monetary incomes and expenditures is compiled. This balance sheet takes into account all the monetary incomes and expenditures of the population in the planned period of time. Certain ratios in the flow of funds provided for individual elements of the national economic plan (wage fund, trade turnover, state budget, etc.) make it possible to set the necessary planned tasks in the field of money circulation.

An important tool for planning money circulation is the cash plan of the State Bank, which is approved by the government. *The cash plan is a plan of cash turnover of all links of the State Bank system. The cash plan shows all expected cash receipts to the State Bank during the planning period and all cash withdrawals from the bank's cash desk. The cash plan is drawn up taking into account the balance of cash incomes and expenditures of the population. Consequently, the cash plan takes into account the volume of retail turnover, procurement of agricultural products, the amount of wages of workers and employees and other indicators that determine the amount of cash receipts and disbursements. The cash plan provides for the issuance and withdrawal of money from circulation depending on the ratio of cash receipts to the cash desks of the State Bank for the country as a whole and their expenditure.*

The State Bank regulates the circulation of money in the country, also through a credit plan.

The planned organisation of the circulation of money makes it possible to increase or decrease the quantity of cash

and to have in each period of time in each region of the country and in the country as a whole as much cash as is necessary for circulation. In this way, the strengthening of money circulation is achieved.

The monetary reform carried out at the end of 1947 was of great importance for the consolidation of the monetary system of the USSR.

*Monetary reform* consisted in the fact that the old, to a certain extent depreciated during the war, was exchanged under certain conditions for new, full-fledged money of the 1947 model. After the reform, the wages of workers and employees continued to be paid in the same amounts, but in new, full-fledged money. The monetary reform was accompanied by a decrease in the prices of goods. The monetary reform of 1947 eliminated the consequences of the war in the field of money circulation, restored the full-fledged Soviet ruble, strengthened the importance of money in the national economy, facilitated the transition to trade at uniform prices without cards, led to an increase in the real wages of workers and employees, and to an increase in the real incomes of the rural population.

The regulation of money circulation, the growth in the production of consumer goods and retail turnover, and the decline in prices for goods led to an increase in purchasing power and the ruble exchange rate. On March 1, 1950, the Soviet government raised the official exchange rate of the ruble, and the calculation of the ruble exchange rate began to be carried out not on the basis of the dollar, as it was established in 1937, but directly on the gold basis, in accordance with the gold content of the ruble.

Under socialism there is a *state currency monopoly*, i.e., the concentration in the hands of the socialist state of all settlements with foreign countries, the purchase, sale, and storage of foreign currency. The state currency monopoly and the monopoly of foreign trade make the Soviet currency independent of the volatile conditions of the capitalist

market. This independence was further strengthened by the accumulation of gold reserves and the active balance of trade and payments of the USSR.

## **BRIEF CONCLUSIONS**

*1. The financial system of socialism includes the state budget, credit, state social insurance, state property and personal insurance, the financial economy of state enterprises, collective farms, and industrial cooperatives.*

*2. The state budget is the main form of planned formation and use of the centralised fund of monetary resources to meet the national needs. The main source of budget revenue is the net income of society, which is used mainly to finance economic and cultural construction.*

*3. Credit in a socialist society is a form of mobilisation by the state of temporarily free funds and their planned use in the national economy on the terms of repayment. Interest is a fee established by the state for the temporary use of borrowed funds. The source of interest is the net income of enterprises. Credit is provided by banks and savings banks. There are two kinds of banks in the USSR: the State Bank, which is the issuing bank, the short-term credit bank, and the country's settlement centre, and the state special banks for long-term investments. Banks exercise control over production and circulation in the ruble and contribute to the strengthening of economic accounting.*

*4. Relying on the economic law of money circulation, the socialist state carries out the planned management of the circulation of money in the country. By means of the planned organisation of money circulation in the socialist economy, a correspondence is achieved between the quantity of cash and the needs of commodity circulation in money, and an increase in the purchasing power of the ruble is ensured.*

## CHAPTER XXXVIII. SOCIALIST REPRODUCTION

### **The Essence of Socialist Reproduction.**

The condition for the existence and development of socialist society, as well as for any other society, is the constant renewal of the production of material wealth, i.e., reproduction.

The basic theses of the Marxist-Leninist theory of reproduction—simple and expanded reproduction, the total social product and the national income, the division of social production into the production of means of production and the production of consumer goods, and the need for a certain proportionality between the various parts of the total social product—retain all their significance under socialism and communism. Socialist society cannot dispense with the application of these propositions in the planning of the national economy.

At the same time, reproduction under socialism is fundamentally different from reproduction under capitalism.

In accordance with the requirements of the basic economic law of socialism, socialist reproduction is subordinated to the goal of ensuring the maximum satisfaction of the ever-growing material and cultural needs of the entire society, while capitalist reproduction is subordinated to the task of ensuring maximum profit for the capitalists.

Whereas capitalist reproduction is carried out spontaneously and is periodically interrupted by economic crises, the socialist mode of production is characterised by *crisis-free development and continuous expanded reproduction*. Proceeding from the law of planned development of the national economy and conforming in all

respects to the requirements of the basic economic law of socialism, the socialist state determines in a planned manner the rate of development of the national economy, proportions, and connections between industries, the volume of accumulation and consumption.

The process of reproduction, taken as a whole, is first of all the process of reproduction of the social product. The leading role in the process of reproduction of the *social product* belongs to the reproduction of the means of production and, first of all, of the instruments of labour. The continuous multiplication and improvement of *instruments of labour* is a necessary condition for technical progress. Socialist reproduction is carried out on the basis of higher technology. Along with the instruments of labour, other elements of the means of production are also reproduced: old factory buildings are expanded and new ones are constructed, new means of transport are created, the production of raw materials increases, and so on.

The expanded reproduction of the means of production makes it possible to expand the production of consumer goods, such as clothing, footwear, food, etc.

Socialist society is characterised by *high rates* of reproduction of the social product. This is primarily due to the absence of exploiting classes and their parasitic servants under socialism, the absence of crises and unemployment, the planned and expedient use of society's labour resources, and the systematic and rapid rise in the productivity of social labour. Further, the high rates of growth of the social product are conditioned by socialist emulation and socialist methods of management: the consistent implementation of the regime of economy, the planned use of national economic funds, the strengthening of economic calculation, and the systematic reduction of the cost of production.

The following data testifies to the high rates of socialist reproduction. The gross output of large-scale industry in the USSR in 1953 compared to 1913 increased (in comparable

prices) by 30 times, the production of means of production by more than 50 times, and the production of electricity by almost 70 times. The chemical industry and mechanical engineering grew at an even faster rate. The total social product in the USSR increased 10 times in the period from 1928 to 1953 alone (in comparable prices).

The growth rate of production in the USSR is many times higher than the growth rate of production in the USA, despite the fact that the US economy did not suffer damage during the Second World War. The average annual growth rate of industrial production in the USSR (minus the war years) was about 19% from 1929 to 1953. in the USA-3.5%.

In the process of socialist reproduction, *the reproduction* of labour power is carried out. The planned provision of enterprises with labour force is one of the fundamental conditions for expanded socialist reproduction. With the growth of the national economy, the size of the working class is steadily increasing. Recruitment of labour force to all branches of social production is carried out in an organised manner by enterprises and economic bodies. Industry, construction, transport, and agriculture are provided with qualified personnel through the state system of training labour reserves, through a special network of schools, courses, technical schools, and higher educational institutions in accordance with the needs of the national economy. Labour resources are distributed systematically among the branches of the national economy and individual enterprises. A characteristic feature of personnel reproduction is the constant improvement of the level of qualification and culture of the entire mass of workers.

Expanded reproduction under socialism is at the same time *an expanded reproduction of socialist relations of production*.

The expanded reproduction of socialist relations of production means the reproduction of: a) socialist property in its two forms, state and cooperative-kolkhoz, b) relations of comradesly cooperation and socialist mutual assistance of



workers in the process of production of material wealth, c) mutual relations of workers in the distribution of consumer goods in accordance with the quantity and quality of labour of each worker.

Socialist relations of production are free from the deepest contradictions inherent in capitalist relations of production. The reproduction of capitalist relations of production means the intensification of the exploitation of labour by capital, the growth and deepening of the class contradictions between the exploiters and the exploited, which inevitably leads to the revolutionary collapse of capitalism. The reproduction of socialist relations of production means the strengthening of the alliance of friendly classes - the working class, the peasantry - and the intelligentsia inseparably linked with these classes, the strengthening of the moral and political unity of society, and the gradual erasure of class boundaries and social differences between people. In the process of expanded socialist reproduction, a gradual transition from socialism to communism is taking place.

## **The National Wealth of Socialist Society. Composition of the Total Social Product.**

All the material goods at the disposal of socialist society constitute its *national wealth*.

The first element of the national wealth of a socialist society is the production funds of the national economy, that is, the means of production, which are divided into: a) fixed production funds and b) circulating production funds of the national economy. The national wealth of a socialist society also includes natural resources involved in the process of reproduction (cultivated and suitable land, mineral deposits, forests, water, etc.).

*The main* production assets of the national economy consist of state or cooperative-kolkhoz means of labour (industrial buildings, machines, machine tools, equipment, structures, etc.) functioning in all branches of material production. *Circulating* production funds of the national economy are objects of labour that are both in the process of production and in stock at state enterprises, kolkhozes, and other cooperative organisations (raw materials, materials, fuel, and so on).

The second element of national wealth is the *circulation funds* of the national economy. These include stocks of finished products located in the warehouses of state production enterprises, collective farms, cooperative cooperatives, state and cooperative trade enterprises and organisations.

The third element of national wealth is state and kolkhoz material *reserves*, as well as safety stocks.

The fourth element of national wealth is the non-productive funds of the national economy, which are state or cooperative-kolkhoz property that serves the purposes of *non-productive* consumption for a long time: the housing stock, the buildings of cultural and domestic institutions, such as schools, theatres, clubs, hospitals, etc., with their equipment.

Such are the basic elements of national wealth, which constitute social, socialist property.

The composition of the national wealth also includes the personal property of the *population*, *personal property*, which is multiplied on the basis of the continuous growth of social, socialist property.

An important role in the reproduction of material wealth is played by the accumulated production experience, knowledge and qualifications of the workers of socialist society, and the diverse spiritual wealth of the country. "The degree of skill of the present population is always the prerequisite of all production, and consequently the chief accumulation of wealth."<sup>166</sup>

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<sup>166</sup> K. Marx, Theories of Surplus Value, vol. III, 1936, p. 229.

Under capitalism, the overwhelming majority of national wealth belongs to the exploiting classes, and the growth of wealth takes place in the form of the accumulation of capital, leading to the impoverishment of the masses of the people. Under socialism, all national wealth is the property either of the state, i.e., of the whole people, or of the collective farms and other cooperative associations, or of the personal property of the citizens. Socialism knows no fictitious wealth, all the wealth of socialist society is *real* wealth. With the growth of the national wealth of socialist society, the material well-being and cultural level of the entire people are systematically raised.

During the years of the Soviet Five-Year Plans, the national wealth of the U.S.S.R. has been enormously multiplied. Thus, by the end of 1940 the fixed production assets of the national economy alone had increased six-fold as compared with 1913, and by the end of 6 more than 1953 times.

National wealth includes all the material goods that a socialist society has at its disposal at a given time. In other words, national wealth reflects the results of the entire previous development of society. The total social product, on the other hand, includes the material goods created in society over a certain period of time, for example, in a year.

The reproduction of the social product under socialism takes place in two forms: (a) natural-material and (b) value, or money. In its natural-material form, the entire production of socialist society is divided into two large subdivisions: the production of means of production, designed to re-enter the production process (Division I), and the production of *consumer goods*, intended to satisfy the needs of the population (Division II). Accordingly, the whole mass of the annual product is divided into means of production and articles of consumption. Expanded socialist reproduction requires a constant renewal and increase in the production of

both means of production and consumer goods in a certain proportion established by the national economic plan.

In terms of value, the social product is divided into: (1) the value of the means of production consumed, which is transferred to the product; (2) the value of a portion of the newly created output produced by labour for oneself; (3) the value of a portion of the newly created output produced by labour for society. The socio-economic nature of each of these parts of the value of the social product is fundamentally different from that of capitalism. Instead of constant and variable capital, in the process of socialist reproduction, national economic funds function, and instead of surplus value, the net income of society functions.

The process of socialist reproduction presupposes, first of all, the planned *replacement* of the consumed means of production at the expense of a certain part of the total social product in kind and in value. Replacement of fixed assets in kind takes place through partial or complete replacement of machines, buildings, and structures. Fixed assets are reimbursed in value through depreciation. *The depreciation fund* of the national economy of the USSR is designed to ensure the overhaul of fixed assets during the entire period of their operation and the reimbursement of the cost of consumed fixed assets.

Further, the process of socialist reproduction presupposes that the articles of consumption distributed according to labour and spent to meet the personal needs of the workers of material production and their families must be re-created by the labour of these workers.

Finally, in the process of socialist reproduction, the workers of material production create by their labour a product for society, which is intended for the socialist accumulation and satisfaction of social material and cultural needs (education, health care, administration, defence of the country).

## **The Relation Between the Two Subdivisions of Social Production.**

In accordance with the requirements of the basic economic law of socialism and the law of the planned (proportional) development of the national economy, in the process of socialist reproduction, the necessary proportions are established in a planned manner between the production of means of production and the production of consumer goods, between the various branches of the national economy, between production and circulation, between accumulation, consumption, and reserves, and so on.

The most important proportion of socialist reproduction is the correct correlation between the first and second divisions of social production. At the same time, the determining role in the entire economy is played by the first subdivision, which produces the means of production. A continuous upswing of the national economy is possible only if the production of the means of production grows more rapidly. Without a predominant increase in the production of means of production, it is impossible to carry out expanded reproduction at all.

“In order to expand production (‘to accumulate’ in the categorical sense of the term), it is necessary first to produce the means of production, and for this it is necessary, therefore, to expand the department of social production which produces the means of production.”<sup>167</sup> Lenin called the preferential growth in the production of means of production as compared with the production of consumer goods in expanded reproduction an economic law.

A predominant increase in the production of means of production (primarily instruments of labour) is a necessary condition for the widespread introduction of the latest

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<sup>167</sup> V. I. Lenin, On the characteristics of economic romanticism, Works, vol. 2, p. 137.

technology into all branches of socialist production and for a systematic increase in labour productivity. Thus, an increase in the relative importance of machine-building and the production of electric power makes it possible to carry out the comprehensive mechanisation and electrification of all branches of the national economy and to create the material and production base of communism.

The predominant growth in the production of means of production means a more rapid development of industry in comparison with agriculture. Under socialism, the proportions between industry and agriculture are established that ensure a steady growth not only in industrial but also in agricultural production.

Thus, expanded socialist reproduction, accompanied by rapid progress in technology, is characterised by an upsurge in production in which the growth of the branches producing the means of production (Division I) is faster than the growth of the branches producing consumer goods (Division II). At the same time, there is a constant absolute increase in the production of consumer goods in socialist society, which finds expression in a steady increase in the output of agriculture, food, and light industry, in the expansion of housing construction in cities and villages, and in the development of Soviet trade.

The share of means of production in the production of the entire industry of the USSR was: in 1924-1925—34%, in 1937—58, in 1953—approximately 70%.

Over the past 28 years, the production of consumer goods in the USSR has increased approximately 12 times. From 1926 to 1953, trade turnover (in comparable prices) increased almost 8 times. In tsarist Russia, trade turnover increased 3 times over 27 years (from 1885 to 1912).

Only continuously growing heavy industry, which is the basis of the foundations of a socialist economy, can ensure

the steady growth of the light and food industries and agriculture.

The predominant growth of Division I, as an economic law of extended reproduction, does not exclude the possibility and necessity in certain periods of more rapid development of the branches of division II in order to eliminate the lag in the production of consumer goods and ensure the correct combination of divisions I and II of social production in the light of the fundamental tasks of communist construction.

The presence of a powerful, comprehensively developed heavy industry in the USSR has now made it possible to move forward at a high rate not only industries that produce means of production, but also industries that produce consumer goods. This combination of the development rates of the branches of Divisions I and II allows: first, to maintain the leading role of Division I in social production and steadily strengthen the country's defence capability; second, to overcome the disparity between Divisions I and II that arose in the previous period; third, to create a new economy by accelerating the development of the light, food, and agricultural industries. the country has an abundance of consumer goods.

The task set by the Communist Party and the Soviet government of creating an abundance of consumer goods in the country by means of all-round acceleration of the branches of the light industry, food industry, and agriculture, while preserving and strengthening the leading role of heavy industry, reflects the requirements of the basic economic law of socialism.

In 1953, the production of consumer goods increased by 65% compared to 1949, and the growth rate of Division II in 1953 compared to 1952 slightly exceeded the growth rate of Division I. During 1953 alone, about 300 new state-owned industrial enterprises for the production of consumer goods were put into operation. Based on the accelerated growth of

branches of Division II, the market funds of basic food and industrial goods increased in 1956 in comparison with 1950: for meat products - 2.6 times, for fish products - 2.3 times, for animal oil-2.1 times, for sugar-2.4 times, for fabrics and shoes- 2 times, for furniture - by 4.8 times, for sewing machines - by 5.9 times, for radios and televisions - by 5.3 times, etc.

How does exchange occur under socialism between divisions I and II of social production and within each of them?

First, there is an exchange between the various branches of Division I.

One part of the means of production created in division I remains in the same division and ensures simple reproduction. This part of the produced means of production is used to compensate for partially or completely retired means and objects of labour (replacement of worn-out machines, major repairs of equipment, renewal of spent stocks of raw materials, etc.). Another part of the means of production ensures expanded reproduction in various sectors of the economy included in Division I. For example, the coal and oil industries provide fuel to the engineering industries and receive the necessary equipment from them; metallurgy, supplying the construction industry with the metal it needs, in turn uses raw materials from the ore industry to increase metal smelting, etc.

Thus, between the industries of division I, there is a systematic exchange of those means of production that serve the purposes of maintaining and expanding production in these industries. As already mentioned, within the state production sector, the produced means of production do not circulate between industries as goods, but are distributed in the order of material and technical supply and only retain the form of goods.

Secondly, there is an exchange between various branches of division II. The products of Division II consist of consumer goods. One part of the consumer goods produced in Division II



goes for the personal consumption of the workers of this division, and is exchanged through channels of commodity circulation for the wages of workers and employees, for the cash income of collective farmers. A certain amount of consumer goods produced on collective farms is distributed and consumed on these same collective farms, without taking a commodity form and without passing through the channels of market circulation.

Thirdly, there is an exchange between divisions I and II. Part of the means of production produced in Division I should be used to replace partially or completely retired means of labour and to renew spent stocks of raw materials, fuel and other materials in the industries of Division II, as well as to increase the means of labour, reserves of raw materials, fuel and materials of this division necessary for expanded reproduction. Part of the consumer goods produced in Division II is exchanged through the trading network for the wages of employees of Division I. The rate of expansion of production and technical progress of the industries of Division II depends primarily on the quantity and quality of the means of production that they receive from Division I. This determines the leading role of division I in relation to division II.

Lenin pointed out that Marx's formula of the correlation between

Divisions I and II of social production ( $IV + m$  to II c) remain in force for socialism and communism. Moreover, the socio-economic relations hidden behind this formula change radically.

Under socialist expanded reproduction, Division I must produce the amount of means of production necessary to ensure continuous growth of production on the basis of higher technology in both divisions, with predominant growth in Division I. On the other hand, division II must produce consumer goods in the quantity necessary to satisfy the ever-growing needs of both former and newly involved workers in

both divisions, as well as workers employed in non-productive industries. In each given period, part of the produced means of production and consumer goods goes to increase reserves.

Under the conditions of the anarchy of capitalist production and the limited effective demand of the working masses, the most difficult problem of capitalist reproduction is the problem of the realisation of the social product. The planned and crisis-free development of socialist production does not encounter the difficulties inherent in capitalism, since the steady growth of the purchasing power of the population creates an ever-expanding demand for industrial and agricultural products.

This does not mean, however, that in the course of expanded socialist reproduction, certain disturbances in individual proportions in the national economy cannot occur, such as, for example, miscalculations in planning as a result of insufficient consideration of the requirements of the law of planned development of the national economy, or natural disasters such as drought, which adversely affect production. In order to prevent and eliminate the individual imbalances in the national economy that arise as a result, the socialist state creates the necessary reserves.

The backwardness of agriculture, especially grain farming, animal husbandry, the production of vegetables and potatoes, and the light and food industries, which developed in the preceding period of the development of the Soviet economy, is being overcome by the socialist state in a planned manner by means of the accelerated development of these branches of the national economy.

## **Formation and Purpose of Public Funds under Socialism.**

The socialist mode of production also determines the forms of distribution of the total social product

corresponding to it. Society, represented by the socialist state, systematically distributes the social product in accordance with the requirements of the basic economic law of socialism.

As has already been said, the total social product, minus the part used to replace the means of production consumed, constitutes the national income of socialist society. The national income is divided into two large funds: the *accumulation* fund, which ensures the continuous growth and improvement of socialist production, and the *consumption fund*, which ensures the satisfaction of the ever-growing material and cultural needs of the entire society.

Most of the accumulation fund is used for the expansion of production. The scale of production in socialist society grows systematically, from year to year, at a rate unprecedented in the capitalist world.

The other part of the accumulation fund is used for the purposes of *capital construction for cultural and domestic purposes*. This includes extensive and increasing work on the construction of schools, hospitals, and public services.

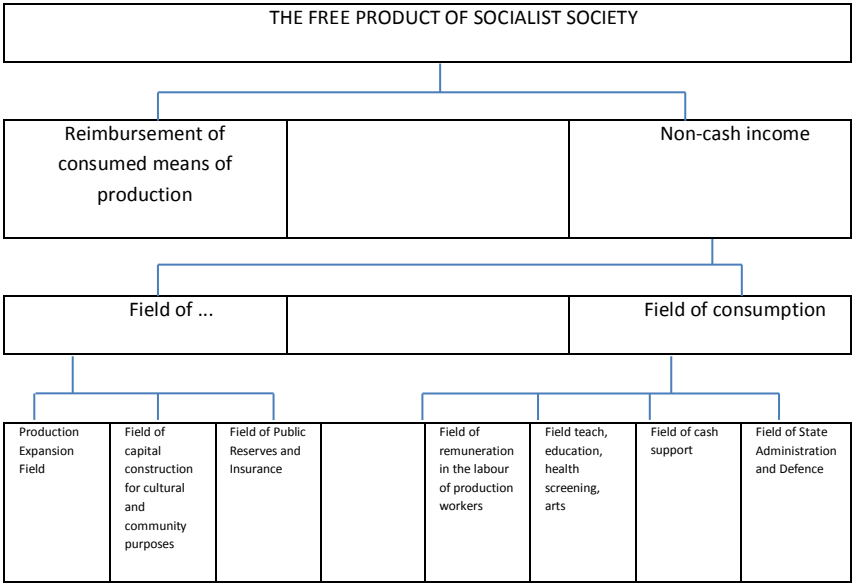
Finally, a third part of the accumulation fund forms the reserve or *insurance fund of the society*. State reserves of raw materials, fuel, and foodstuffs, as well as reserve funds in the kolkhozes, make it possible to prevent interruptions in the process of reproduction.

The consumption fund, in turn, consists of two parts: the main part of the consumption fund is the *wage fund for the labour* of workers in socialist production, which, in accordance with the economic law of distribution according to labour, goes to the wages of workers and employees engaged in production, to the wages of collective farmers, and so on. The other part is the *public consumption fund*, which covers the various needs of socialist society as a whole.

Part of the public consumption fund is spent for *social and cultural purposes*: to meet the growing needs of socialist society in the fields of science, education, public health, art, and other areas of culture and everyday life. In accordance with the economic law of distribution according to labour, workers in the cultural and consumer service sectors receive wages from this fund.

Part of the public consumption fund forms the *social security* fund. This fund serves the purpose of providing state assistance to mothers with many children and single mothers, children, the elderly, and the disabled in accordance with the right granted by the Constitution of the USSR to material support in the event of disability and old age.

## SCHEME OF DISTRIBUTION OF THE TOTAL PRODUCT IN A SOCIALIST SOCIETY



Part of the public consumption fund is used to cover the *costs of administration*, such as the salaries of employees of the state apparatus, and so on.

Part of the national income goes to the needs of the country's *defence*. In view of the danger of military attacks by the imperialist aggressors on the U.S.S.R., the strengthening of the defensive capacity of the socialist country is of the utmost importance.

As has already been indicated, the overwhelming majority (about three-fourths) of the national income is spent on satisfying the personal material and cultural needs of the working people in the USSR.

### **Socialist Accumulation. Accumulation and Consumption in Socialist Society.**

The source of expanded socialist reproduction is socialist accumulation. *Socialist accumulation* is the use of a part of the net income of society, consisting of means of production and consumer goods, for the expansion of production, as well as for the formation of material reserves and the increase of non-productive socio-cultural funds.

As a result of socialist accumulation, there is an increase in material values that are in state and cooperative-kolkhoz ownership, which means an increase in the national wealth of socialist society. The accumulated share of national income is also expressed in monetary terms. The overwhelming majority of the monetary savings of all branches of the national economy and part of the population's funds are mobilised through the state budget for the needs of the whole people.

Socialist accumulation is carried out by means of capital investment in the national economy. *Capital investments* are a set of expenditures applied in a certain period for the

creation of new ones, as well as for the reconstruction of existing fixed assets for production and non-production purposes. A certain part of capital investment in the national economy is used to replace the fixed assets consumed. The Soviet state is systematically and systematically carrying out capital work on a massive scale: the construction of new factories and plants, electric power stations, mines and mines, the construction of state farms and machine and tractor stations, means of transport and communication, residential buildings, schools, hospitals, and children's institutions.

Solving the problem of a steep rise in the production of consumer goods requires large capital investments in the light industry, food industry, and agriculture.

The volume of state capital investments in the national economy of the USSR in terms of modern prices amounted to 1929 billion rubles in 1932-68, 1933 billion rubles in 1937-158, and 1946 billion rubles in 1953-781. The bulk of capital investment is directed to the expansion of socialist industry. At the expense of capital investments, large industrial enterprises were built and put into operation: in the years of the first five-year plan - more than 1,500, in the years of the second five-year plan - 4,500, in the three and a half years of the third five-year plan - about 3,1946, in 1953-8 about <>, <> state industrial enterprises were restored and rebuilt. In addition to industrial and agricultural enterprises, many thousands of cultural and domestic institutions have been created.

In 1954, the volume of capital investments in the light and food industries will increase by 84% compared to 1953, and in agriculture-by 80%.

Socialist accumulation is based on a steady increase in the productivity of social labour and a systematic reduction in the cost of production.

The planned, crisis-free nature of the socialist economy, the high level of capital investment in the national economy, the planned and rational use of the means of production and

labour resources in social production, and the absence of parasitic consumption - all this determines the *high rates* of accumulation, which are unattainable under capitalism even in the most favourable periods of its development.

The share of national income that goes to accumulation in the United States for the period 1919-1928. it averaged about 10%, and for the decade from 1929 to 1938 - only 2%. In the USSR, the socialist accumulation fund (including reserves) accounts for about one-quarter of the national income.

Socialism abolished the antagonistic contradiction between production and consumption characteristic of capitalism. Expanded socialist reproduction means a steady increase not only in the means of production, but also in consumer goods.

Socialist society also does not know the division of articles of consumption into the necessary means of consumption of the working masses and articles of luxury, which are inherent in capitalism and connected with the existence of antagonistic classes, which enter only into the consumption fund of the exploiting classes. Under socialism, the entire fund of consumption goes to the toiling masses.

With the development of production, with the growth of the national income, with the increase in the volume of socialist accumulation, the funds of the people's consumption also grow, and the social and personal needs of the working people are more and more fully satisfied.

The growth of national consumption is accompanied by an improvement in its structure: the share of high-quality goods and products in the national consumption funds is steadily increasing. From 1947 to 1953, the sale of white bread to the population increased more than 6 times, meat products-2.3 times, animal and vegetable oil-almost 2 times, sugar-5.4 times, fruit-more than 3 times. In 1940, industrial goods accounted for 36.9% of the country's trade turnover, and in 1953 - 45.3%.

All this means that under socialism there is an economic law of accumulation peculiar to it. *The law of socialist accumulation* determines the continuous growth of national wealth through the systematic use of a part of the net income for the expansion of production in order to satisfy the growing needs of the whole of society. In contrast to the general law of capitalist accumulation, by virtue of which the growth of the wealth of the exploiting classes is inevitably accompanied by the impoverishment of the toiling masses, the operation of the law of socialist accumulation leads to the fact that, along with the growth of national wealth, there is a systematic rise in the material and cultural level of the people.

The Soviet state establishes for each period in a planned manner definite proportions between the accumulation fund and the consumption fund, proceeding from the fundamental tasks of communist construction. The decisions of the September (1953), February-March, and June (1954) plenums of the Central Committee of the Communist Party of the Soviet Union on agriculture and the major measures taken by the Soviet government to increase the production of food and industrial goods have ensured a sharp increase in the fund of public consumption.

All aspects of expanded socialist reproduction—production, distribution, circulation, and consumption—in their unity and interconnection are embraced by the balance sheet of the national economy of the USSR. The balance of the national economy of the U.S.S.R., which has been realised in terms of the national economy, expresses the entire process and results of expanded socialist reproduction.

Under socialism, the capitalist law of population has completely lost its force, by virtue of which, in parallel with the growth of social wealth, an increasing part of the working population turns out to be surplus, is pushed out of production, replenishing the army of the unemployed. The socialist system ensures full employment for the entire able-



bodied population. Therefore, under socialism there is not and cannot be overpopulation. Constant and rapid growth of the population, a high level of material well-being of the people, low morbidity and mortality of the population with the full and rational use of its able-bodied part - this is the essence of *the socialist law of population*.

From 1926 to 1939, the average annual net population growth in the USSR was about 2 million people, or 1.23%. Over the same period, the average annual net population growth was 0.08% in France, 0.62% in Germany, 0.36% in England, and 0.67% in the United States. In recent years, the annual net population growth of the USSR is more than 3 million people. In 1953, the death rate in the USSR decreased by more than 2 times compared to 1927, and by more than 3 times compared to 1913. The mortality rate in the USSR is significantly lower than in the USA, England and France.

Thus, socialist reproduction is characterised by a planned and continuous expansion of the entire social production, carried out at a high rate inaccessible to capitalism, a systematic and rapid increase in the number of the entire population, including the working class and the intelligentsia, and a steady increase in the material well-being and cultural level of the masses.

## **BRIEF CONCLUSIONS**

*1. Socialist reproduction is the continuous expanded reproduction of the aggregate social product, labour power and socialist relations of production. The advantages of the socialist national economy and its planned, crisis-free development determine the steady growth of the socialist economy and the high rates of expanded socialist reproduction.*

2. National wealth includes all material goods at the disposal of socialist society. The components of the national wealth are: fixed and circulating production funds of the national economy, circulation funds, state and kolkhoz material reserves and insurance stocks, non-production funds, and personal property of the population.

3. The reproduction of the social product is carried out in two forms: natural and value. In the natural form, the production of the social product under socialism is divided into the production of means of production (Division I) and the production of consumer goods (Division II). In terms of value, the social product includes: the value of the means of production consumed, the value of a part of the newly created products produced by labour for oneself, the value of a part of the newly created products produced by labour for society. Expanded socialist reproduction presupposes the necessary correspondence (proportionality) between all parts of the social product in terms of natural form and value.

4. The distribution of the social product under socialism ensures the steady expansion of socialist production in town and country, the satisfaction of the constantly growing material and cultural needs of socialist society, and the strengthening of the country's economic power and defense capability.

5. Socialist accumulation is the use of a part of the net income of society, consisting of means of production and consumer goods, for the expansion of production, the formation of social reserves, and the increase of non-productive, socio-cultural funds. Socialism is free from capitalism's inherent antagonistic contradiction between production and consumption. In contrast to the general law of capitalist accumulation, by virtue of which the growth of the wealth of the exploiting classes is inevitably accompanied by the impoverishment of the toiling masses, the operation of the law of socialist accumulation leads to

*the fact that, along with the growth of national wealth, there is a systematic rise in the material and cultural level of the people.*

*6. Under the socialist system, the capitalist law of population has lost its force. The socialist law of population is expressed in the constant and high growth of the population, in the rational and full utilisation of its able-bodied part in the interests of society as a whole.*

## **CHAPTER XXXIX. THE GRADUAL TRANSITION FROM SOCIALISM TO COMMUNISM**

### **Two Phases of Communist Society.**

The development of society, as confirmed by the entire history of mankind, proceeds from the lowest to the highest levels. The highest and most progressive stage of social development is communist society, which is the ultimate goal of the revolutionary struggle of the working people of all countries.

Marx and Engels scientifically substantiated that communist society will pass through two phases of development: the lower, called socialism, and the higher, called communism. At the first stage of its development, communist society cannot yet be free from the traditions and survivals of capitalism, from the depths of which it directly emerged. Only the further development of socialism on its own self-created basis leads to the second and higher phase of communist society. Consequently, socialism and communism are two stages of maturity of a new, communist social formation.

The economic basis of both phases of communism is the social ownership of the means of production. The predominance of social ownership determines the planned development of the national economy. Both phases of communist society are characterised by the absence of exploiting classes and the exploitation of man by man, of national and racial oppression. Under both socialism and communism, the goal of production is to satisfy as much as possible the ever-growing material and cultural needs of the entire society, and the means to achieve this goal is the continuous growth and improvement of production on the basis of higher technology.

At the same time, the second phase of communism differs significantly from its first phase, being a higher stage of economic and cultural maturity of communist society.

Already under socialism the productive forces have reached a high level: socialist industry and large-scale socialist agriculture are the most concentrated and the most mechanized in the world, and they are steadily developing at a high rate that is inaccessible to capitalism. But the productive forces of society and the productivity of the workers are not yet sufficient to ensure an abundance of material goods. Communism presupposes such a level of development of the productive forces of society and the productivity of social labour that will be able to ensure this abundance.

In contrast to socialism, where there are two forms of social, socialist ownership - state and cooperative-kolkhoz, under communism the undivided domination of the single communist ownership of the means of production will be established.

If, under socialism, under the conditions of the existence of two basic forms of socialist production, state and collective-farm, commodity production and commodity circulation are preserved, then under communism, when the domination of a single communist property, a single form of communist production, is established, there will be no commodity production and commodity circulation, and, consequently, no money.

Under socialism there is no longer an antagonism between town and country, between mental and physical labour, but there are still essential differences between them. Under communism there would be no essential distinction between town and country, between mental and physical labour, and only insignificant differences between them.

In socialist society there are two classes, the working class and the collective-farm peasantry, which are friendly to

each other, but differ in their position in social production. Along with the working class and the peasantry, there is a social stratum - the socialist intelligentsia. With the abolition of the distinction between the two forms of socialist property and the elimination of the essential differences between town and country, between physical and mental labour, the boundaries between workers, peasants and intellectuals will be completely erased, and they will all become toilers of communist society. Communism is a classless society.

Under socialism, labour freed from exploitation is based on a high level of technology and has already become a matter of honour. At the same time, under socialism the complete mechanisation of all production processes has not yet been achieved, labour has not yet become the first vital need of people, the negligent attitude towards labour on the part of some members of society has not yet been overcome, and the need for the strictest control on the part of society over the measure of labour and the measure of consumption remains. Under communism, the complete mechanisation and automation of production processes will be realised, and labour will be transformed from a means of maintaining life into the first vital need in the eyes of the whole society.

Communism provides all members of society with the flourishing of their physical and mental faculties. All members of society will be cultured and well-educated and will be free to choose their profession. Communism presupposes a further development of science, art, and culture unprecedented in history.

A high level of development of the productive forces and the productivity of social labour will ensure the abundance of all material and cultural goods, which will make possible the transition from the socialist principle of distribution to the communist principle. "In the highest phase of communist society," Marx wrote, "after the subordination to the division of labour, which enslaves man, has disappeared; when the antithesis of mental and physical labour disappears with it;

when work ceases to be only a means of subsistence, but becomes the first necessity of life; When, together with the all-round development of individuals, the productive forces will grow and all the sources of social wealth will flow in full flow, only then... society will be able to inscribe on its banner: To each according to his ability, to each according to his needs!”<sup>168</sup>

These are the main differences between socialism and communism.

Developing and enriching the Marxist doctrine of communism, Lenin elaborated the basic principles of the ways to build a communist society. In justifying the program of the Communist Party, Lenin said: “In commencing socialist transformations, we must clearly set before ourselves the goal to which these transformations are ultimately directed, namely, the goal of creating a communist society that does not confine itself only to the expropriation of factories, mills, land and means of production, that does not confine itself only to strict accounting and control of the production and distribution of products, but goes further towards the realisation of the principle: from each according to his ability, to each according to his needs.”<sup>169</sup>

The Soviet Union has all the necessary conditions for the construction of complete communism. It has gigantic material resources and natural resources for this. Socialism in the U.S.S.R. is developing on its own material and production base, which it has created. The Soviet Union has the world’s most advanced socialist industry and the world’s largest and most highly mechanized agriculture. A powerful factor accelerating the development of the Soviet economy on the road to communism is the creative activity of the masses,

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<sup>168</sup> K. Marx, Critique of the Gotha Program, K. Marx, F. Engels, Selected Works, vol. II, 1948, p. 15.

<sup>169</sup> V. I. Lenin, Report on the revision of the program and change in the name of the party at the VII Congress of the RCP (6), Works, vol. 27, p. 103.

which is expressed in nationwide socialist competition. The Soviet people are led to communism by the Communist Party, armed with the theory of Marxism-Leninism, knowledge of the economic laws of socialism, and a scientifically based program for building a communist society.

After the Second World War, the international conditions for the construction of communism in the USSR changed radically. If the Soviet Union used to be the only socialist country, now there is a powerful socialist camp with a population of hundreds of millions. The formation of the socialist camp brought about a radical change in the balance of forces on the world stage and created a new environment for the construction of socialism and communism. In the people's democracies of Europe and Asia, the foundations of the first phase of communist society are being laid. The decisive condition for the victory of socialism and communism in all the countries of the socialist camp is the further strengthening of the power of this camp and the development of close economic, political and cultural cooperation among its constituent peoples.

However, along with the camp of socialism, there is the camp of imperialism, led by the United States. As long as there is an imperialist camp hostile to socialism, there is also a danger of a military attack on the Soviet Union and the people's democracies by the aggressive imperialist powers.

Marxism-Leninism teaches that in the higher phase of communism, with the abolition of classes and class distinctions, the state becomes unnecessary and will gradually wither away. At the same time, it is necessary to take into account international conditions. To the question of whether the state would survive in our country during the period of communism, Stalin gave the following answer: "Yes, it will, if the capitalist encirclement is not eliminated, if the danger of military attacks from outside is not eliminated, and it is clear that the forms of our state will



again be changed, in accordance with the changes in the internal and external situation.

No, it will not survive and will wither away if the capitalist encirclement is liquidated, if it is replaced by a socialist encirclement.”<sup>170</sup>

A socialist state is indispensable as long as capitalist encirclement exists, as long as the danger of attack on the U.S.S.R. and other countries of the socialist camp by the imperialist states is not eliminated. Until then, the Soviet Union, while pursuing a consistent policy of peace, must at the same time be ready to repel any enemy attack from outside. To this end, it is necessary to strengthen the socialist state in every possible way, increase the economic power of the country, and ensure its defence capability.

## **Creation of the Material and Production Base of Communism.**

The fulfilment of the world-historical task of building communism requires, first of all, an enormous increase in the productive forces, the creation of a material and production base capable of providing the abundance of material goods necessary for the transition from socialism to communism.

The material and production base of communism that is being created in the U.S.S.R. is large-scale machine production in town and country, based on the electrification of the entire country, on comprehensive mechanisation and automation, and on the *all-round* chemicalisation of production processes. In terms of its scale and technical level, the material and production base of communism will

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<sup>170</sup> J. V. Stalin, Report at the XVIII Party Congress on the work of the Central Committee of the All-Union Communist Party of Bolsheviks, “Questions of Leninism,” ed. 11, 1952, p. 646.

be much higher than the material and production base of socialism.

In order to prepare for the transition to communism, it is necessary to ensure a continuous upswing of the entire social production, with a predominant increase in the production of the means of production. The predominant growth in the production of means of production creates the prerequisites for the constant expansion of production and its improvement on the basis of higher technology in order to achieve an abundance of material goods.

This requires an enormous increase in production capacities in all branches of the national economy, and above all in industry, by means of new capital construction. Hundreds and thousands of new enterprises are being built and designed in the USSR, based entirely on the world's most advanced equipment and technology, and new types of raw materials and sources of energy are being created and used.

Lenin pointed out that the technical basis of industrial and agricultural production under communism would be the electrification of the entire national economy. "Communism is Soviet power plus electrification of the whole country."<sup>171</sup>

This means that industry, transport and agriculture will be fully transferred to a new, higher technical base related to electrification.

The electrification of the *entire* national economy is the *main* characteristic feature of the material and production base of communism. In the context of the gradual transition from socialism to communism, electrification is being carried out on a huge scale. This is evidenced by the construction of the world's largest hydroelectric power plants in the USSR.

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<sup>171</sup> V. I. Lenin, Report on the activities of the Council of People's Commissars at the VIII All-Russian Congress of Soviets, Works, vol. 31, p. 484.

The socialist planned economy ensures the creation of a *single high-voltage network* connecting numerous power plants of different economic regions, which is not feasible under capitalism because of the domination of private property and the anarchy of production.

In order to provide electricity to the needs of developing industry, agriculture and urban economy in the USSR, a grandiose electrification program is being implemented under the fifth five - year plan (1951-1955). 711 power plants are being built and expanded, and after their completion, the total capacity of the USSR's power plants will increase by 75%.

In 1954 alone, two and a half times more capacity will be put into operation at power plants than was commissioned in the first 10 years of electrification of the USSR according to the Goelro plan.

The electrification of the entire national economy, as the main condition for the creation of the material and production base of communism, is inseparably linked with the *integrated mechanisation* of all labour processes, with the automation and *chemicalisation of* production, and with the use of all *the* latest achievements in technology. The electrification of production processes and the automatic system of machines radically change the conditions of labour, lead to the replacement of unskilled labour by skilled labour, and create the technical basis for the final abolition of the essential difference between mental and physical labour.

In the national economy of the U.S.S.R., the foundations have already been laid for further great transformations in the technique of production, leading to the level of development of the productive forces necessary for communism.

A remarkable achievement of the world's most advanced machine-building, the Soviet machine-building, is the creation of enterprises with complete integrated mechanisation, with automatic lines of machine tools and automatic plants. For

example, in 1952, all regional hydroelectric power plants had automated control of units. A number of hydroelectric power plants are controlled by means of telemechanics. The capacity of hydroelectric power plants transferred to telemechanical control is more than 50% of the total capacity of hydroelectric power plants. In the construction of hydraulic structures, earthworks are carried out with the help of a complex of earth-moving machines. Automated plants have been created for the production of concrete. At these plants, all work is automated, from the feeding and weighing of raw materials to the delivery of ready-made concrete.

In the USSR, the world's first automatic plant for the production of pistons for automobile engines was created, where all processes, from the supply of raw materials to the packaging of finished products, are fully automated. The plant is operated by only a few workers. Such factories are the prototype of the technology of communist society.

If at the present time the automation of labour processes appears as a harbinger of the new technical basis of communism, then in the course of time this great achievement of science and technology will be introduced into all branches of production.

Soviet science has mastered the methods of using atomic energy. In the USSR, the problem of using this new type of energy for peaceful purposes is practically solved. In the summer of 1954, the first industrial nuclear power plant built by Soviet scientists and engineers with a useful capacity of 5,000 kilowatts was put into operation and provided electricity for industry and agriculture in the surrounding areas. Soviet scientists and engineers are working on the creation of industrial nuclear power plants with a capacity of 50-100 thousand kilowatts.

The use of atomic energy for the production of material wealth, the further improvement of jet technology, radio engineering, telemechanics, etc., open up unprecedented opportunities for improving production and increasing labour productivity. All this will inevitably lead to an enormous

acceleration of economic development and will provide the level of productive forces necessary for the transition to the higher phase of communism.

### **Ways of Abolishing the Essential Distinction Between Town and Country.**

The growth of the productive forces of socialist society will necessitate changes in the sphere of production relations as well. In the higher phase of communism, the relations of production will be based on a single *nationwide communist ownership* of the means of production. The transition to unified communist ownership requires the all-round strengthening and further development of state (all-people) property and the gradual raising of collective-farm and cooperative ownership to the level of national ownership. On the basis of unified communist ownership, the essential distinction between town and country will disappear.

The essential difference between town and country, between industry and agriculture, and between the workers and the collective-farm peasantry at the socialist stage, lies in the fact that industry is state (nation-wide) property, whereas in agriculture there is group, collective-farm ownership. In industry, electrification, mechanisation, automation, and chemicalisation of production have been carried out to a much greater extent. In spite of the genuine cultural revolution in the countryside, the cultural level of the rural population as a whole has not yet reached that of the urban population.

The essential distinction between town and country is being eliminated in the process of building communism. Socialist industry is the decisive force in the way of abolishing the essential distinction between town and country, between industry and agriculture. Only the further

all-round development of large-scale industry will make it possible to fully realize the comprehensive mechanisation of all branches of agriculture.

Socialist industry fulfils its transformative role in relation to agriculture primarily through machine and tractor stations, which play a leading role in the development of collective-farm production. Machine and tractor stations, as the most important industrial centres of socialist agriculture and conductors of a high culture of agriculture, are serving all branches of collective-farm production more and more extensively with the help of the latest technology and permanent qualified engineering, agronomic, and zootechnical personnel. The socialist state, through machine and tractor stations, exercises its leading role in the development of collective farms along the path of gradual transition from socialism to communism. The importance of state farms as examples of the largest and most highly mechanized agriculture is increasing. In this way, the role of popular ownership in the further development of socialist agriculture as a whole is increasing.

Electrification is a powerful means of bringing the countryside to the city. New powerful hydroelectric power plants will provide a huge amount of electricity not only for industrial, but also for agricultural production. The electrification of agriculture will be based on large state-owned power plants. Along with them, there is a large-scale construction of small kolkhoz power plants. The strongholds of the comprehensive electrification of agriculture will be electric *machine-tractor* stations using electric tractors, electric combines, electric milking of cows, electric shearing of sheep, etc. They are not only new energy bases for agriculture, but also powerful centres of culture.

The agricultural *artel* is the main form of collective farms during the period of gradual transition from socialism to communism. The agricultural *artel*, which combines the social economy as the main force of the kolkhoz with the

personal subsidiary farming of the kolkhoz workers, meets to the greatest extent the interests of the state, the kolkhozes and the kolkhoz workers. It contains huge reserves that have not yet been fully used to increase labour productivity. Armed with the help of the MTS, the kolkhozes are successfully developing their social economy, which is the basis for the creation of an abundance of agricultural products.

With the strengthening and development of the social economy in the kolkhozes, the tasks of cultural, domestic and housing construction are being consistently solved. The rapidly growing social economy of the kolkhozes will more and more fully satisfy the multifaceted personal needs of the kolkhoz workers. When an abundance of agricultural products is achieved, the social economy of the collective farms will be able to satisfy both the needs of the state and all the needs of the collective farms and the personal needs of the collective farmers. Then it will be unprofitable for collective farmers to own cows and small livestock, to cultivate potatoes and vegetables on their household plots. As a result, there will be no need for a personal subsidiary farm.

On the basis of the further strengthening and development of the material and production base of collective-farm production, the prerequisites will gradually be created for the transformation of the agricultural *artel* into a highly developed *agricultural commune* as the highest form of the collective-farm movement. "The future commune will grow out of a developed and prosperous *artel*. The future agricultural commune will arise when there will be an abundance of grain, cattle, poultry, vegetables and all sorts of other products in the fields and farms of the *artel*, when mechanized laundries, modern kitchens-canteens, bakeries, etc., will be established under the *artels*, when the collective farmer will see that it is more profitable for him to get meat and milk from the farm than to have his own cow and small livestock, when the collective farmer sees that the

farmer will see that he is not a farmer. that it was more profitable for her to dine in the canteen, to take bread from the bakery, and to get washed linen from the public laundry, than to do it herself. The future commune will arise on the basis of a more developed technique and a more developed artel, on the basis of an abundance of products.”<sup>172</sup> The process of the artel growing into a commune will take place to the extent that the necessary material prerequisites for this are created, and to the extent that the collective farmers themselves become convinced of the necessity of such an outgrowth.

The abolition of the essential distinction between town and country does not mean the death of the big cities. The planned location of industry throughout the country, the approximation of industrial enterprises to the sources of raw materials are accompanied by the construction of new cities. Cities, as centres of the greatest growth of culture, as centres not only of large-scale industry, but also of the processing of agricultural products, and the powerful development of all branches of the food industry, will contribute to the equalisation of living conditions in town and country. The appearance of old cities is radically changing. The socialist reconstruction of cities has as its goal the elimination of overcrowding and the improvement of urban conditions by greening cities and making use of all the modern achievements of communal services. The progressive role of the socialist city as the bearer and conductor of the achievements of modern advanced science and culture is growing ever more.

Transport has a big role to play in eliminating the essential distinction between town and country. Transportation links the centres of industry with the regions of agriculture into a single whole. The development of railway, road, water, and air transport, the transmission of

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<sup>172</sup> J. V. Stalin, Report to the XVII Party Congress on the Work of the Central Committee of the CPSU (B), Works, vol. 13, p. 353.



electricity over long distances, and the improvement and wide spread of radio and television are important means of bringing the countryside and the city closer together. Thanks to these advances in science and technology, the rural population is able to enjoy all the benefits of culture along with the urban population.

As long as there are two main productive sectors of the national economy, the state and the collective-farm sectors, commodity production and commodity circulation inevitably remain, which the socialist state successfully uses to build communism. Only on the basis of a single communist property will commodity production and the categories connected with it wither away.

In the higher phase of communism, with the disappearance of commodity production, value with its forms and the law of value will disappear. The quantity of labour expended in the production of products will not be measured in a roundabout way, not by means of value and its forms, as is the case under the conditions of commodity production, but directly and directly by the amount of labour-time expended in the production of products.

The creation of a single communist ownership of the means of production will be the basis for the final erasure of the boundaries between the workers and the collective-farm peasantry.

With the disappearance of the essential distinction between town and country under communism, there will still be some *insignificant difference* between them, which arises from the peculiarities of industrial and agricultural production, for example, the seasonality of agricultural work associated with the natural process of growth and maturation of plants, the limited period of use of agricultural machinery, and so on.

## Ways of Abolishing the Essential Distinction Between Mental and Physical Labour.

For the transition to communism, it is necessary to achieve such a cultural growth of society that would ensure the full and comprehensive development of people's physical and spiritual abilities.

After the abolition of the antithesis between physical and mental labour in the course of communist construction, the problem arose of abolishing the essential distinction between physical and mental labour that exists under socialism. *The essential difference* between physical and mental labour is that the majority of workers are still below the level of workers in engineering and technical labour in terms of cultural and technical level, while the majority of collective farmers are below the level of agronomic workers.

At the same time, the improvement of technology in industry and agriculture—electrification, integrated mechanisation, chemicalisation, etc.—increasingly requires from the workers in production a high level of both general and special engineering, technical, or agronomic education. Without this, it is impossible to ensure a further increase in the productivity of social labour, which is necessary for the transition to communism. Hence the objective necessity of the cultural growth of society, the abolition of the essential distinction between physical and mental labour.

The essential difference between physical and mental labour is abolished by raising the cultural and technical level of workers to the level of engineering and technical workers and collective farmers to the level of agronomic workers.

In abolishing the essential distinction between physical and mental labour, socialist emulation, in which the overwhelming majority of the working class and the collective-farm peasantry participate, plays an enormous role. More and more large masses of workers are mastering

modern technique and technology of production, and the number of rationalizers and inventors is growing. This elevates broad strata of workers to the level of engineering and technical workers.

As early as 1935, characterizing the Stakhanov movement as a new stage in socialist emulation, Stalin pointed out that it contained the seed of the future cultural and technical upsurge of the working class and opened the path “by which alone it is possible to achieve those higher indices of labour productivity which are necessary for the transition from socialism to communism”<sup>173</sup> When the workers raise their cultural and technical level to the level of engineering and technical workers, and the collective farmers to the level of agronomic workers, a new, unprecedented rise in labour productivity will be achieved, ensuring the creation of an abundance of all material goods.

As the productivity of social labour rises, economic conditions will be created for the gradual reduction of the working day. This, in turn, will enable members of society to devote much more time and effort to mastering knowledge and culture, to developing all their physical and mental abilities.

One of the conditions for the elimination of the essential difference between mental and physical work is compulsory polytechnic education. Lenin pointed out that polytechnic education should acquaint students in theory and practice with the main branches of production. Polytechnic education, broadening the horizons of workers, equipping them with knowledge of the basics on which modern large-scale production is built, will give the opportunity to freely choose a profession.

Further improvement of the culture of all members of society will be carried out through the development of universal compulsory polytechnic education, secondary

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<sup>173</sup> J. V. Stalin, Speech at the First All-Union Meeting of Stakhanovites, “Questions of Leninism,” ed. 11, 1952, p. 535.

technical and higher education, distance learning, the creation of a wide network of various courses and the training of personnel of mass professions in production. The XIX of the Communist Party recognised the need in the Fifth Five-Year Plan to begin the implementation of polytechnic education in secondary schools and to carry out the measures necessary for the transition to universal polytechnic education.

Raising the knowledge and culture of the workers and peasants to the level of engineers, technicians and agronomists will mean the abolition of the distinction between the workers and peasants on the one hand and the intelligentsia on the other.

Socialist society has made great strides in improving the well-being of the people. But in order to ensure the all-round cultural growth of the working people, which is necessary for the transition to communism, it will be necessary to radically improve living conditions, to significantly raise the real wages of workers and employees and the real incomes of collective farmers. This can only be achieved through further rapid growth in production and increased productivity.

The all-round development of productive forces and culture will lead to the complete elimination of unskilled and hard physical labour, and the old division of labour associated with the lifelong assignment of workers to certain professions will disappear.

Communism, in abolishing the old division of labour, does not at all deny the necessity of the division of labour. Communism requires qualified, well-rounded specialists in various fields of production, science, and technology.

All members of the communist society will have the engineering and technical training necessary to operate high technology and complex production processes, and will have the opportunity to engage not only in the production of material goods, but also in the sciences and the arts. The abolition of the essential distinction between mental and

physical labour does not mean that all distinction between these kinds of labour will be abolished. Some difference, though insignificant, will remain. For example, the working conditions of the management of enterprises will differ from the working conditions of direct production workers.

Of great importance for the transition to communism is the communist education of the working people, the fundamental task of which is to educate the new man, for whom work will become the first necessity of life. Describing labour under communism, Lenin wrote: "Communist labour in the narrower and stricter sense of the word is free labour for the benefit of society, labour performed not for the performance of a certain obligation, not for obtaining the right to certain products, not according to pre-established and legalized norms, but voluntary labour, labour outside the norm, labour given without expectation of remuneration, without the condition of remuneration. Work out of the habit of working for the common good and out of a conscious (habitual) attitude to the need to work for the common good, labour as a need of a healthy organism."<sup>174</sup>

Communism presupposes a high level of consciousness among the members of society. The germs of new, communist relations are already present in socialist society in relation to labour and to social property, in relations between people. Observance of communist principles will eventually become the natural, common behaviour of highly educated, cultured people. But it must not be forgotten that in our society the survivals of capitalism are far from being eradicated from the consciousness of men, that these survivals exist because consciousness lags behind being, and that the capitalist environment strives in every possible way to support and revive them. Hence the necessity of overcoming the survivals of capitalism in the consciousness of the people, of a tremendous upsurge in the culture and

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<sup>174</sup> V. I. Lenin, *From the Destruction of the Age-Old Way of Life to the Creation of a New One*, Works, vol. 30, - p. 482.

communist consciousness of the masses of the people. The struggle against the remnants of the old attitude to labour, to social property, to bureaucracy, to the survivals of the past in everyday life and morality, and against religious prejudices is of the utmost importance during the entire period of the transition from socialism to communism. In order to overcome all these survivals of capitalism, it is necessary to carry out persistent and persistent political and educational work among the masses, to educate the whole people in the spirit of confidence in the invincibility of the great cause of communism.

### **Transition to the Communist Principle: “From Each According to His Ability, to Each According to His Needs.”**

The conditions for the realisation of the communist principle “from each according to his ability, to each according to his needs” are prepared gradually, as production grows and an abundance of consumer goods is created on this basis, the domination of unified communist property is established, and the level of culture and consciousness of the members of society corresponding to communism is reached. This principle means that in a communist society, everyone will work according to his abilities and receive consumer goods according to the needs of a culturally developed person.

The prerequisites for the higher phase of communism are created through the fullest use by the socialist state of the economic laws of socialism. In accordance with the requirements of the basic economic law of socialism, socialist production is developing steadily and rapidly, and the well-being of the people is growing. The role of the law of planned development of the national economy is becoming

ever stronger, and the methods of socialist planning are being perfected. National economic plans, designed for a long period, determine concrete ways of creating the material and production basis of communism.

The decisive condition for building communism is the steady growth of labour productivity in all sectors of the national economy. "Communism," wrote Lenin, "is the highest, as opposed to capitalist, productivity of labour of voluntary, conscious, united workers, using advanced technology".<sup>175</sup>

The main means of increasing labour productivity are: all-round development and wide introduction of advanced technology into production, complete mechanisation and automation of all production processes, further improvement of labour organisation, planned and most rational use of labour resources not only within the enterprise, but also on the scale of the entire national economy.

In order to ensure a steady increase in the productivity of labour and a sharp increase in social wealth, it is necessary to make full use of such economic instruments of planned management of the national economy as money, credit, trade, and economic calculation, which are connected with the existence of the law of value, in the period of transition from socialism to communism. The steady rise in the material and cultural level of the working people is carried out on the basis of the consistent application of the economic law of distribution according to labour. The growth of labour productivity is accompanied by a decrease in prices for industrial and agricultural goods. There is a systematic increase in the real wages of workers and employees and the incomes of collective farmers. The working people are getting more and more opportunities to buy food, clothing, household items, etc. Of great importance in creating the prerequisites for the transition to communism is the successful implementation of the program of a steep increase

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<sup>175</sup> V. I. Lenin, *The Great Initiative*, Works, vol. 29, p. 394.

in the production of consumer goods carried out by the Communist Party and the Soviet state.

For the first time in the history of mankind, a majestic task has been set - to comprehensively satisfy human needs for food in accordance with the requirements of science. "We must set ourselves the task," said N. S. Khrushchev, "to achieve a level of food consumption that is based on scientifically based nutritional standards required for the comprehensive, harmonious development of a healthy person".<sup>176</sup>

A decisive increase in the production of material wealth leads to the fact that the level of wages of workers and employees and the incomes of kolkhoz workers ensures an ever more complete satisfaction of the growing material and cultural needs of the working people. To the extent that the abundance of products increases, the prerequisites will be created for the transition from distribution according to labour to distribution according to needs. In this regard, it is important to further develop trade in every possible way. Trade will remain the main form of distribution of consumer goods throughout the period of gradual transition from socialism to communism. The improvement of Soviet trade will prepare the way for the ramified apparatus which will be used in the higher phase of communism for the direct distribution of products according to needs, without the circulation of commodities and money.

Communism will ensure the all-round satisfaction of the various personal needs of the members of society both through the multiplication of consumer goods and household items that become personal property and through the development of social forms of satisfying the needs of the population (cultural and domestic institutions, dwellings, sanatoriums, theatres, and so on).

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<sup>176</sup> N. S. Khrushchev, On Measures for the Further Development of Agriculture of the USSR. Report at the Plenum of the CPSU Central Committee on September 3, 1953; page 10.



The transition to communism cannot be imagined as a one-time act. It is taking place gradually, through the all-round development of the foundations of socialism. The law of transition from the old qualitative state of society to the new one by means of an explosion, which is obligatory for a society divided into hostile classes, is by no means obligatory for a society that has no hostile classes, such as socialist society. The material and cultural prerequisites for communism are created in proportion to the flourishing of the productive forces of socialist society, the growth of its wealth and culture, the strengthening and multiplication of social ownership of the means of production, and the communist education of the masses.

This does not mean that the development of society along the path to communism will take place without internal contradictions. But these contradictions, as has already been said, are not antagonistic. The Communist Party and the Soviet state, learning the economic laws of the development of society and relying on them, can timely notice the contradictions that arise and take measures to eliminate them. Thus, the measures taken to ensure a steep rise in the production of consumer goods are aimed at overcoming the contradiction that has arisen in connection with the lag of agriculture and light industry in relation to the growing needs of the people. Measures to stimulate the kolkhozes and kolkhoz workers economically lead to overcoming the backwardness of kolkhoz production.

The gradual transition from socialism to communism does not preclude revolutionary leaps in the development of technology, economy, science, and culture. For example, the discovery of new sources of energy and new types of raw materials, the introduction of new technical inventions in production give rise to a genuine technical revolution. The transition from two forms of social ownership to a single communist ownership of the means of production, from the socialist principle of distribution according to labour to the

communist principle of distribution according to needs, will mean enormous qualitative changes in the economy and in the entire life of society.

The Soviet Union is the first country in the world to build socialism and is now successfully erecting the edifice of communism. The development of all humanity will inevitably follow the path to communism. Outlining the prospects for communist construction, Lenin said: "If Russia is covered with a dense network of power stations and powerful technical equipment, then our communist economic construction will become a model for the coming socialist Europe and Asia".<sup>177</sup>

The Soviet Union, which is on its way to the highest phase of communism, is a powerful centre of attraction, a recognised leader of the entire socialist camp in the international arena. The great example of the Soviet people shows the peoples of the whole world the way to emancipation from capitalist slavery and its inevitable companions - exploitation, unemployment, crises and wars.

## BRIEF CONCLUSIONS

*1. Socialism and communism represent two phases in the development of the communist social formation. Communism is the highest phase of this formation, which is characterised by a higher level of development of the productive forces than socialism, the existence of a single nationwide communist ownership of the means of production, the absence of classes and class differences, essential differences between town and country, between physical and mental labour. Under communism, labour will*

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<sup>177</sup> V. I. Lenin, Report on the Activities of the Council of People's Commissars at the VIII All-Russian Congress of Soviets, Works, vol. 31, p. 486.

*be transformed from a means of sustaining life into the first vital need of people. On the basis of an enormously increased level of productive forces and the productivity of social labour, an abundance of consumer goods will be achieved and a transition to the communist principle will take place: "from each according to his ability, to each according to his needs."*

*2. In order to prepare the transition to communism, it is necessary to create a material and productive base of communism capable of ensuring an abundance of consumer goods; To abolish the essential distinction between town and country on the basis of the creation of a single communist ownership of the means of production, which requires the all-round strengthening of the role of state ownership of the means of production in the national economy, and especially in agriculture, and the strengthening of the social economy of the agricultural artel; To achieve such a cultural growth of society as to abolish the essential distinction between mental and physical labour and to raise all workers in their education and technical knowledge to the level of engineers, technicians and agronomists.*

*3. The gradual transition from socialism to communism, which is being successfully carried out in the U.S.S.R., is being carried out by the vast masses of the working people under the leadership of the Communist Party and the Soviet state, who rely in their activity on the knowledge and use of the objective laws of economic development. The prerequisites for the higher phase of communism are created through the strengthening and further development of socialist property and the increase in the productivity of social labour, through the consistent implementation of the basic economic law of socialism, the law of the planned development of the national economy, the law of distribution according to labour, the law of value, and other economic laws operating at the stage of socialism. In socialist society there are germs of communism in*

*production, in relation to labour and social property, and in relations between people. The construction of communism is carried out in a resolute struggle against the vestiges of capitalism in the minds of the people. Of great importance in the elimination of these survivals is the communist education of the working people. The entry into the second phase of communism and the transition to the communist principle of distribution will take place gradually, as the abundance of consumer goods increases.*

*4. The all-round strengthening of mutual cooperation and fraternal friendship among the countries of the socialist camp headed by the Soviet Union is a decisive condition for the successful construction of communism in the U.S.S.R. and socialism in the countries of people's democracy. The building of communism in the U.S.S.R. is of great international significance. Each new step taken by the Soviet people on the road to communism confirms more and more vividly the superiority of socialism over capitalism and inspires the working people of all countries with confidence in the historical doom of capitalism and the triumph of communism.*

# **THE BUILDING OF SOCIALISM IN THE PEOPLE'S DEMOCRACIES**

## **CHAPTER XL. THE ECONOMIC SYSTEM OF THE EUROPEAN PEOPLE'S DEMOCRACIES**

### **Prerequisites for the People's Democratic Revolution.**

The people's democratic revolution in the countries of Central and South-Eastern Europe - Poland, Czechoslovakia, Hungary, Rumania, Bulgaria and Albania - was prepared by the entire course of economic development and the class struggle of the working class and the working people of these countries, by the entire course of the world liberation movement. The development of capitalism in these countries took place with the preservation of significant vestiges of feudal-serf relations. For a long time, these countries were enslaved by the imperialist powers. The landlords, the big bourgeoisie, who were in power, were obedient executors of the will of foreign capital. The exploitation of the working class reached extreme limits. The bulk of the peasantry suffered from landlessness and poverty. All this revolutionized the working class and the broad masses of the peasantry.

Before the revolution, the People's Democracies, with the exception of Czechoslovakia, had a medium or underdeveloped industry with a significant predominance of agriculture. In Hungary and Poland, an average level of industrial development was reached. Romania and especially Bulgaria had underdeveloped industry. Albania was the most economically backward country with large vestiges of the patriarchal-clan system.

Before the revolution, an enormous part of the land in these countries was in the hands of the big proprietors, the

landlords and capitalists. In Poland, peasant farms up to 5 hectares in size, amounting to about  $\frac{2}{3}$  The farms of the landlords and capitalists with a size of more than 15 hectares, which accounted for 50.0 per cent of all farms, had about half of the land.

In Hungary, farms of up to 5.7 hectares, which accounted for 84 per cent of all farms, owned 7 hectares of land, and farms over 50 hectares, which accounted for 0.9 per cent of all farms, owned almost half of the land. In Romania, farms of up to 5 hectares were  $\frac{3}{4}$  of all farms, and 28% owned land, in Bulgaria, respectively, about  $\frac{2}{3}$  and 30 per cent, in Czechoslovakia, 70.5 per cent and 15.7 per cent.

The industries of Central and Southeastern Europe were dominated by capitalist monopolies, with foreign capital occupying key positions. In Poland before the war, almost  $\frac{2}{3}$  of capital investment in industry belonged to foreign capital. In Romania before the war, foreign capital controlled 91.9% of all capital invested in the oil industry. In Hungarian industry, 40% of all capital investment in 1937 belonged to foreign firms. In Bulgaria in 1937 about half of the capital investment of large-scale industry and about two-thirds of the capital of transport companies were in the hands of foreign capital.

During the Second World War, the countries of Central and South-Eastern Europe fell under the yoke of German imperialism, which sucked all the juice out of them. The landlords and the monopoly bourgeoisie became agents of German fascism and thereby completely isolated themselves from the people. Class and national antagonisms have become extremely acute. The toiling masses, under the leadership of the working class, led by the Communist and Workers' Parties, waged a stubborn struggle for emancipation from fascist slavery against the German invaders and the landlord-capitalist cliques, which had betrayed the national interests of their countries.

The Soviet Union, having won a victory over Hitlerite Germany, liberated the peoples of the countries of Central and South-Eastern Europe from the German fascist yoke. The

national liberation struggle of the toiling masses has acquired enormous proportions. The peoples overthrew the power of the servants of the Hitlerite occupiers and were given the opportunity to begin building their state life on a democratic basis. The foundations of a new type of state - the people's democratic republic - were laid. Thus began the people's democratic revolution.

## **The Nature of the People's Democratic Revolution.**

The main driving forces of the people's democratic revolution were the working class and the peasantry, with the leading role of the working class. In the course of the struggle against fascism, a national front was formed, which, along with the working class and the peasantry, also included the middle and petty urban bourgeoisie and all anti-fascist forces. The revolution abolished the political domination of the landlords and the monopoly bourgeoisie. A people's democratic government was established, based on the alliance of the working class with the peasantry, under the leadership of the working class. Along with the Communist and Workers' Parties, petty-bourgeois and bourgeois parties that were part of the national front for the struggle against fascism participated in the government and state organs.

At its first stage, the people's democratic revolution solved the problems of the bourgeois-democratic revolution. It was, firstly, anti-imperialist, because it liberated the enslaved peoples of Central and South-Eastern Europe from the yoke of imperialism and gave them national independence, and secondly, it was *anti-feudal*, because it abolished *semi-feudal* relations in the economy. In the course of the anti-feudal agrarian revolution, the landlords' lands with living and dead implements were confiscated and most



of them distributed among land-poor peasants and farm labourers. The land was transferred to the peasants in private ownership. On part of the confiscated landlords' lands, state farms were established.

As a result of the agrarian revolution, the landlord class was abolished, and the situation of the toiling peasants improved considerably. Most of the poor peasants and farm labourers who received land rose to the level of the middle peasants. The middle peasant became the central figure of agriculture. The proportion of kulak farms has been considerably reduced.

In Poland, as a result of the agrarian revolution, landless and landless peasants received more than 6 million hectares of land. In Romania before the revolution, poor and middle peasant farms owned less than half of the total land, and in 1948 they owned 80.7% of the land area. In Hungary, poor and middle peasant farms received about 2 million hectares as a result of agrarian reforms; Whereas before the revolution these farms owned 40.4 per cent of the total land, in 1947 they owned 70.7 per cent of the total land area.

The agrarian revolution was carried out with the active participation of the broad peasant masses and in an atmosphere of acute class struggle. The reactionary forces, with the support of foreign imperialists, violently resisted the agrarian reforms, trying in every possible way to thwart them.

The agrarian revolution had major economic and political consequences. With the abolition of large landed estates, the reactionary forces lost a very important material base. The abolition of landlordism and the division of land among the toiling peasants destroyed the vestiges of feudal exploitation of the peasantry. The allotment of land to land-poor peasants and landless farm labourers attracted them to the side of the people's democratic system. Representing the completion of the tasks of the bourgeois-democratic

revolution, agrarian transformations were at the same time one of the prerequisites for the transition to socialist construction.

In completing the realisation of its anti-feudal tasks, the people's democratic revolution increasingly passed over to its second stage, the fulfilment of the tasks of the socialist revolution. This meant the *transformation of the bourgeois-democratic revolution into a socialist revolution*.

As early as the beginning of the revolution, the people's democratic states nationalised enterprises that were in the hands of the Hitlerite occupiers and the monopoly bourgeoisie, which was closely connected with them. As a result, the monopoly bourgeoisie, deprived of power, also lost its economic position. Thus began the socialist nationalisation of the main means of production. At the same time, workers' control was introduced in private capitalist enterprises. In the course of the revolution, the nationalisation of the means of production became more and more extensive. All this weakened the bourgeoisie as a whole and strengthened the position of the working class.

In carrying out the tasks of the socialist revolution, the people's democratic government transformed factories and mills, mines and power plants into socialist property of the whole people. Transport and means of communication, mineral resources and part of the land, banks, foreign trade, and wholesale domestic trade were also nationalised. In this way, the people's democratic power, led by the working class, abolished the economic domination of the bourgeoisie and took possession of the commanding heights of the national economy.

The nationalisation of large-scale and medium-sized industry, transport, communications, etc., was carried out in the European People's Democracies in several steps. Decisive measures in this field were carried out in Poland in 1946, in Bulgaria and Albania in 1947, and in Hungary, Czechoslovakia and Romania in 1948.

The nationalisation of large-scale industry was a decisive condition for the transition to the socialist transformation of society. It meant that the relations of production in industry were brought into conformity with the social character of production: the main means of production became the property of the entire people in the person of the people's democratic state. In this was manifested the action of the economic law of the obligatory correspondence of the relations of production to the character of the productive forces.

The people's democracies have entered a period of transition from capitalism to socialism.

Socialist nationalisation led to the formation of a socialist economic structure in the form of state socialist enterprises. Gradually, socialist cooperative forms of economy were also created.

As the bourgeois-democratic revolution grew into a socialist revolution, the struggle between the working class and the counter-revolutionary bourgeoisie intensified. The bourgeoisie, relying on the economic power still in its hands, on the support of foreign capital, using its agents in the state apparatus, and often in the government itself, by all means sought to disrupt the measures of the people's democratic power and to restore the economic and political domination of the capitalists and landlords. The working class, relying on the commanding heights of the national economy in the hands of the state, and rallying around itself the peasantry and other strata of the working people, resolutely rebuffed the attempts of the bourgeoisie to restore foreign imperialist oppression. As a result, the bourgeoisie was crushed.

In the course of the development of the revolution, the state organs were purged of bourgeois counter-revolutionary elements, the old bourgeois state machine was broken and replaced by a new state apparatus that met the interests of the working people. The leading role of the working class in the state was finally consolidated. The state system of

people's democracy began to successfully perform the functions of the dictatorship of the proletariat. "Embodying the rule of the working people under the leadership of the working class," said G. M. Dimitrov, "the regime of people's democracy can and must, in the present historical situation, as experience has already shown, successfully perform the functions of the dictatorship of the proletariat for the liquidation of capitalist elements and the organisation of the socialist economy".<sup>178</sup>

## Economic Structures and Classes.

The economies of European people's democracies are characterised by the presence of three main economic structures: socialist, small-scale commodity, and capitalist.

*The socialist system includes:* (1) *state-owned, nation-owned enterprises of industry, transport, banks, commercial enterprises, foreign trade, agricultural estates, machine and tractor stations;* 2) *all types of cooperation—trade, consumer, credit, agricultural, marketing and supply, production agricultural cooperatives.*

In all European countries of people's democracy, the socialist system plays a leading role and occupies a significantly predominant place in the economy. This sector generates the bulk of the national income. The overwhelming majority of industrial output is produced in successively socialist state-owned enterprises. The socialist system also took a dominant position in the sphere of transport and in the sphere of circulation. In the hands of the state is concentrated all banking, all wholesale domestic trade, and the bulk of retail trade. A state monopoly of foreign trade has been established. In agriculture, with the exception of

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<sup>178</sup> G. Dimitrov, Political Report of the Central Committee of the BRP (k), made at the V Party Congress, Sofia 1948, p. 73.

Bulgaria, the socialist system does not yet occupy a predominant place.

Thus, in the European countries of people's democracy, the foundations of socialism have been laid in all branches of the economy, except agriculture.

Occupying a dominant position in the national economy and embracing the commanding heights of the economy, the socialist structure in each of the European countries of people's democracy is the force determining the development of its economy. From year to year, the socialist system strengthens its position.

In 1952, the share of the socialist structure was:  
in the national income of Poland—75%,  
Czechoslovakia—92, Hungary—86.6, Romania—70,  
Bulgaria—85.9, Albania—approximately 70%;  
in industrial products: in Poland—about 99%,  
Czechoslovakia—99, Hungary—97, Romania—95, Bulgaria—  
98%;  
in wholesale trade—in all these countries 100%;  
in retail trade: in Poland—92.4%, Czechoslovakia—  
98.6%, Hungary—92.1%, Romania—about 97%, Bulgaria—  
99.3%.

The share of the socialist system in agriculture (in terms of arable land size) in 1952/53 was 22% in Poland, 43% in Czechoslovakia, more than 30% in Hungary, more than 20% in Romania, 60.5% in Bulgaria, and 9.5% in Albania.

In the socialist system, the exploitation of man by man has been abolished and the nature of labour has changed: from labour for the capitalists it has been transformed into labour for itself, for the whole of society. As a result of the changed economic conditions in the socialist system, the capitalist laws expressing the relations of exploitation and anarchy of production disappeared from the scene, and the laws of the socialist economy arose and began to operate: the basic economic law of socialism, the law of the planned

(proportional) development of the national economy, the law of distribution according to labour, and others. There is a continuous growth of socialist industry on the basis of the use of higher technology for the victory of socialism and the satisfaction of the growing needs of the working people. Socialist production is conducted in a planned manner on the basis of the law of planned (proportional) development of the national economy. Planning methods are becoming more and more sophisticated.

The existence of two forms of socialist property and the small-scale commodity system in the economies of people's democracies determines the operation of the law of value and the economic categories connected with it: money, trade, credit, etc. The law of value is not a regulator of socialist production, but it influences it, and this influence is taken into account by the people's democratic states in the planning of prices, the conduct of economic calculations, and so on. Money, credit, and other economic categories connected with the law of value are increasingly being used as instruments of socialist construction.

Since the socialist system plays a leading role in the economies of the people's democracies, the basic economic law of socialism, the law of the planned development of the national economy, and other economic laws of socialism exert an ever-increasing influence on the development of the national economy as a whole. With the further growth of socialist relations of production, the sphere of action of the economic laws of socialism is steadily expanding.

*The small-scale commodity* structure includes individual farms of toiling peasants, as well as small handicraft farms based on the personal labour of their owners. In some countries, especially in Albania, remnants of patriarchal farms still survive in the countryside. Individual peasant farms produce the bulk of agricultural products in people's democracies. The predominant place among individual peasant farms is occupied by the middle peasants. As has

already been pointed out, individual small-commodity peasant farming, based on private ownership of the means of production, inevitably gives rise to elements of capitalism.

Planning in people's democracies does not yet embrace the entire national economy. In the small-scale commodity system, the development of production is regulated by the operation of the law of value. However, the people's democratic government, relying on the law of the planned development of the national economy, exerts a regulating influence on small-scale commodity production through commodity turnover, procurement, prices, credit, taxes, etc. The overwhelming majority of state procurement of agricultural products is carried out by means of contracts and through rural cooperatives.

*The capitalist* system includes kulak farms, private trade enterprises, and small industrial enterprises based on the exploitation of wage labour.

The regulator of the economy in the capitalist sector is the law of value. Within the limits of the capitalist system, the law of surplus-value continues to operate, but its sphere of action is sharply narrowed. The size of capitalist farms and the possibilities for exploiting wage labour are severely limited. Capitalist farms are subject to a high progressive tax, and the market force is increasingly curbed.

The main classes in people's democracies are the working class and the peasantry. Side by side with the working classes there is the bourgeoisie: the kulaks, the small and medium capitalists in industry and commerce.

The vital basis for the existence and development of the social and State system in the countries of popular democracy is the close alliance of the working class with the working peasantry, with the working class playing the leading role, an alliance directed against capitalism and aimed at building a socialist society. "The core and driving force of our revolutionary transformations was and is the union of workers and peasants, whose leader is the working class. For

decades, the working class, in its struggle against capitalism and fascism, has been strengthening its alliance with the main masses of the working peasantry. The expansion, strengthening, and deepening of this alliance is the main principle of the policy of the people's power, the key to its strength and achievements."<sup>179</sup>

The basic contradiction in the economies of the people's democracies in the period of transition from capitalism to socialism is the contradiction between growing socialism and capitalism, which has been defeated but not yet destroyed, and which has its roots in small-scale commodity production.

The construction of socialism in the people's democracies is taking place in an atmosphere of intensified class struggle. The resistance of the moribund classes manifests itself in the hostile activity of the remnants of the defeated anti-people political parties, in the nationalist, "Left" and Right deviations in the Communist and Workers' Parties, in the wrecking, sabotage and sabotage of the agents of imperialism. The Communist and Workers' Parties and the masses of the people are exposing the elements hostile to socialism and ensuring the victory of the policy aimed at building socialism.

State power in the people's democracies proceeds in its policy from objective economic laws and uses them to achieve the complete victory of socialist forms of economy over capitalist ones.

Guided by the Marxist-Leninist doctrine of the transition period from capitalism to socialism, the people's democratic government strengthens the alliance between the working class and the peasantry and conducts an offensive against the capitalist elements by restricting and ousting them in town and country. People's democracies make full use of market relations to develop a trade bond between industry and

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<sup>179</sup> B. Bierut, Report of the Central Committee of the Polish United Workers' Party to the Second Party Congress, "For a Lasting Peace, for a People's Democracy!", March 19, 1954.



agriculture. In carrying out socialist industrialisation, they are expanding the industrial bond between town and country and are following the line of gradual production co-operatives of peasant farms on a voluntary basis.

Thus, the building of socialism in people's democracies is based on the same fundamental principles that determined the new economic policy in the USSR. However, as already mentioned, these principles are applied in people's democracies, taking into account the unique historical development of the economic and political conditions of each of them. Lenin teaches: "All nations will come to socialism, this is inevitable, but all will not come in exactly the same way, each will bring originality to one or another form of democracy, to one or another type of dictatorship of the proletariat, to one or another pace of socialist transformations of various aspects of social life."<sup>180</sup>

The construction of socialism in the people's democracies is being carried out under different, much more favourable historical conditions than it took place in the first country of victorious socialism, the USSR. In the course of laying the economic and cultural foundations of socialism, the people's democracies make extensive use of the rich experience of socialist construction accumulated by the Soviet Union and rely on the might of the entire socialist camp. This greatly facilitates the solution of the tasks of socialist construction.

Thanks to the help of the Soviet Union, plans for imperialist intervention against the people's democracies were thwarted. In this way, these countries were spared a long civil war and the need to pursue a policy of "war communism." This made it possible for the people's democracies to restore the national economy in the shortest possible time and to begin the socialist industrialisation of the national economy.

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<sup>180</sup> V. I. Lenin, *On the Caricature of Marxism*, Works, vol. 23, p. 58.

## **Socialist Industrialisation.**

Socialist industrialisation is a necessary condition for building socialism in people's democracies. Only on the basis of industrialisation will these countries be able to overcome technical and economic backwardness, create the material and production basis of socialism, and provide solid material prerequisites for the steady growth of production and the well-being of the people.

Before the Second World War, the share of industrial products in industrial and agricultural products was: in Poland - 47.6%, in Hungary-53%, in Romania - 40%, in Bulgaria - 33.8%, in Albania - 18.3%. In Poland, 65% of the amateur population was employed in agriculture, and about 17% in industry, in Romania, 78% was employed in agriculture, and 7% in industry of the amateur population, in Bulgaria, 79.9% of the amateur population was employed in agriculture, and 8% in industry and crafts. In terms of national income, industrial output, and a number of other indicators, these countries lagged significantly behind the more developed industrial countries. For example, in Poland, the consumption of ferrous metals per capita was almost 10 times less than in England, and almost 8 times less than in Germany; electricity consumption was about 7 times less than in England and Germany, and 5 times less than in France. The economy of the countries of popular democracy suffered greatly from the war and fascist management in these countries.

All the countries of the people's democracies have gone through a period of reconstruction of their economies, which suffered from war and fascist plunder. Already during this period, the advantages of the socialist planned economy were manifested, which was expressed in the successful implementation of the first long-term national economic plans (three-year and two-year), the main task of which was the restoration of industry, transport, and agriculture.

The successful restoration of the national economy created a solid basis for its socialist reconstruction. The central task of the first five-year plans for the development of the national economy in the European countries of people's democracy was to build the foundations of socialism. The main link in these plans was socialist industrialisation—the development of large-scale socialist industry, and above all of heavy industry. At the same time, the industrialisation of each individual country has its own characteristics, depending on the level of development and structure of industry, on historical, natural and economic conditions.

The main source of funds for socialist industrialisation in people's democracies is the accumulation of the socialist sector. Part of the savings of the working people in the form of government loans is also used for industrialisation. The aims of socialist industrialisation are to withdraw a part of the income of the capitalist elements in town and country, primarily by means of progressive taxation of these elements.

The decisive factor in the growth of socialist accumulation is the systematic increase in the productivity of social labour on the basis of the introduction of advanced technology into production and the better organisation of labour. Socialist competition is a powerful driving force for the growth of labour productivity. The bulk of the workers participate in socialist emulation. The foremost workers of production in the people's democracies are successfully applying in their work the advanced production experience accumulated in the U.S.S.R. and are making extensive use of the assistance of the Soviet workers. Of paramount importance for a steady increase in the productivity of labour is the use of the economic law of distribution according to labour, the use of various forms of piece-work wages, and the struggle against equalisation. In order to ensure the continuous increase of savings in socialist production, an

enormous role is played by the all-round strengthening of the economy regime and the consistent introduction of economic calculation.

Klement Gottwald wrote: 'Are there not enough economic and political workers in our country who have forgotten the operation of the law of value and for whom, as a result, the questions of self-financing and profitability of enterprises, the question of production costs, the question of prices, etc., have ceased to play a role? Is it not clear that such a wrong attitude brings many losses to our economy and hinders our progress on the road to socialism? I think that this is clear and that it should lead to the fact that all our people, especially in senior and responsible positions, constantly observe the regime of economy in production, procurement and sales.'<sup>181</sup>

The advantages of the socialist economy made it possible to increase capital investment in the national economy several times as compared with the prewar period. Socialist industrialisation in the people's democracies is taking place under different, more favourable historical conditions than in the USSR and has essential features.

If the Soviet Union was the only country building socialism and carried out industrialisation without any outside help, relying exclusively on its own internal resources, then the countries of people's democracies carry out industrialisation in the presence of a powerful socialist camp headed by the Soviet Union. The people's democracies shall make use of the all-round assistance of the USSR in the matter of socialist industrialisation and render assistance to each other.

The Soviet Union had to build heavy industry at an accelerated pace as part of all its branches. The people's democracies are spared the impossible task of developing all

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<sup>181</sup> K. Gottwald, The Historical XIX Congress of the Communist Party of the Soviet Union and our tasks, "For lasting peace, for people's democracy!", November 7, 1952

branches of heavy industry in each of them. As a member of the socialist camp, each people's democratic country has the opportunity to create and develop in the first place those branches of industry for which the most favourable natural and economic conditions exist in that country. The development of industry, as well as of the entire national economy of the countries of the socialist camp, takes place on the basis of a broad division of labour, mutual economic assistance, and cooperation among these countries.

As a result of the successful implementation of long-term plans for the socialist reconstruction of the national economy, the pre-war level of industrial production was exceeded in 1953: in Poland—by 3.6 times, in Hungary—by almost 3.5 times, in Czechoslovakia—by 2.2 times, in Bulgaria—by 4.4 times, in Romania—by almost 2.5 times. The share of industrial output in the total output of industry and agriculture has increased significantly. In all the countries of popular democracy, except Bulgaria and Albania, the output of the means-of-production industries accounts for more than half of the total output of industry. The European countries of popular democracy have become industrial-agrarian countries with large-scale industry equipped with the latest technology.

In Poland, the coal and chemical industries, black metallurgy, and the construction materials industry have developed strongly. Automotive, tractor, shipbuilding, synthetic fibre production and other industries have been established. In 1953, compared with 1938, per capita output of steel increased by 3.1 times, electricity production-by 4.8 times, cement-by 3.2 times, artificial fertilizers—by 2.3 times, etc. In Hungary, the aluminium industry, mechanical engineering, machine tool construction, mining equipment and agricultural machinery have developed significantly. In Romania, the oil-producing and refining industries, as well as the chemical industry, have gained a large scale. Important branches of mechanical engineering have been created, such as the production of agricultural machinery, oil equipment, shipbuilding, and others.

The successes achieved in the development of heavy industry in the people's democracies and the mutual assistance of the countries of the socialist camp have made it possible to accelerate the rate of development of industries producing consumer goods.

The people's democratic states, while further developing the production of means of production as the basis for the development and technical reconstruction of the entire national economy, are seriously increasing investment in agriculture and the light and food industries in order to achieve a significant expansion in the production of agricultural products and industrial consumer goods and to raise the standard of living of the working people.

## **The Socialist Transformation of Agriculture.**

In order to build socialism, the victory of socialist forms of economy is necessary, not only in the cities, but also in the countryside. The only correct way to solve the peasant question, as the experience of the U.S.S.R. shows, is to pass the bulk of the peasantry from small individual farming to large-scale collective farming. The gradual *cooperative production* of small and medium-sized peasant farms on a voluntary basis is an objective necessity for countries that are following the path of building socialism.

Proceeding from this, the people's democracies are developing branches of industry producing tractors and other agricultural machinery, organizing a network of state farms that demonstrate the advantages of large-scale socialist production, and creating machine and tractor stations that ensure the technical re-equipment of agriculture. Assistance is being rendered to the poor and middle peasant masses of the peasantry in raising their farms, and measures are being taken to involve them in various forms of supply, marketing, and production co-operatives.

The process of socialist transformation of agriculture in the people's democracies has its own peculiarities. These countries are carrying out the socialist transformation of peasant farms in the presence of developed socialist agriculture in the USSR in the form of kolkhozes, sovkhozes, and MTS. The advantages of socialist agriculture, which have been proved by the experience of the U.S.S.R., play an important role in drawing the peasantry in the people's democracies to the path of socialism. The experience of the development of kolkhoz production in the USSR, the forms of organisation and remuneration of labour, the distribution of income, and so on, are widely used in the practice of production cooperatives of peasant farms.

The essential features of the production cooperatives of the peasantry in the people's democracies are due to the fact that it takes place while small peasant ownership of land is preserved, whereas collectivisation in the USSR took place under conditions of the nationalisation of *all* land. The experience of the people's democracies shows that the immediate nationalisation of all land is not an indispensable condition for socialist construction in the countryside for all countries.

Depending on the degree of socialisation of land, means of production and the associated distribution of income, producer agricultural cooperatives in people's democracies can be divided into three main types. First of all, there are cooperatives for joint cultivation of land, where only labour is socialised for the performance of individual agricultural work (ploughing, sowing, cultivation of crops, harvesting) on land plots owned by each member of the partnership. Secondly, there are production cooperatives, where the means of production and labour are socialised, and the land is united into a single mass, although it remains in the private ownership of the members of the cooperative. The main part of the products in such cooperatives (70-75%) is distributed according to workdays, and a smaller part is

distributed according to the land share deposited. Thirdly, there are artels, in which the land is socialised and fixed for eternity to the collective farms, and the distribution of products is carried out according to labour. The most widespread form of production cooperatives in most people's democracies today is the second type of cooperative.

The complete victory of socialism in agriculture presupposes the socialisation of all land and its transformation into social property. The transition to the socialisation of all land will take place to the extent that the peasantry, in the course of the development of production co-operatives and the gradual spread of its higher forms, becomes convinced by experience of the indisputable advantages of large-scale collective farming over small-scale private-owned farming.

The socialist transformation of agriculture takes place in the process of fierce class struggle. The kulaks are trying by all means to disrupt the production co-operatives of the peasant farms. The people's democratic states, while rendering all-round material assistance to the poor and middle peasant farms, are carrying out measures to strengthen the organisational and economic co-operatives and are waging an irreconcilable struggle against the kulaks.

In the socialist transformation of agriculture, the countries of popular democracy have made great strides. In Bulgaria, by the beginning of 1953, there were 2,747 labour cooperative agricultural farms, which combined 52.3% of peasant farms, 100 state-owned farms and 140 MTS. 421 socialist sectors in agriculture account for 54.7% of the area of basic grain crops, 74.5% of the area under cotton, rice and sugar beet. In Hungary, production cooperatives unite 200 thousand peasant families and occupy 18% of arable land. State farms occupy 12.5% of arable land. In Poland, by mid-1954, there were 9,000 production cooperatives, occupying over 9% of all arable land. State-owned agriculture accounts for 12.8% of all arable land. In Romania, production cooperatives (including co-cultivation partnerships) cultivate more than 1 million hectares of arable



land, or more than 10%. In Czechoslovakia, production cooperatives cultivate about 33% of arable land, and state farms-about 10%.

In the process of the socialist transformation of the countryside in the people's democracies, mistakes of two kinds took place: on the one hand, the artificial forcing of the cooperatives of peasant farms and the violation of the principle of voluntariness in admission to cooperatives; On the other hand, there is an underestimation of the need to organise and direct the work of co-operatives, and a spontaneous approach to the construction of co-operatives. The Communist and Workers' Parties of the People's Democracies are waging a struggle against these and other mistakes.

On the basis of the socialist transformations carried out in the countryside in the people's democracies, significant successes have been achieved in the development of agriculture and in raising the well-being of the peasantry. However, the growth of agricultural output lags far behind the growth of industrial output and is completely insufficient from the point of view of the needs of the entire national economy.

In Poland, for example, industrial output grew by 118% between 1950 and 1953, while agricultural output grew by only 10%. In Czechoslovakia, during the five-year plan (1949-1953), the production of means of production in industry increased by 118.7%, the production of consumer goods - by 79.8%, and crop production - by only 12.4%.

In this regard, it is an urgent task to eliminate the disproportion between rapidly developing industry and lagging agriculture, and to ensure the development of agriculture.

The solution of this problem requires the further development of industrial cooperatives, the organisational

and economic strengthening of existing cooperatives, and the improvement of the work of state agricultural enterprises. At the same time, in the people's democracies there are still untapped internal reserves of individual peasant farming for increasing agricultural production. Proceeding from this, the Communist and Workers' Parties, while carrying out the general line of the gradual socialist transformation of agriculture, are making use of the possibilities for the development of individual peasant labour, which have not yet been exhausted, for the further development of agriculture. To this end, production, technical, credit and agro-technical assistance is provided to working peasants. Measures are being taken to improve the terms of contracting, procurement and purchase prices have been increased, and taxes have been reduced.

All this contributes to the development of agriculture and to the consolidation of the alliance between the working class and the peasantry.

## **Growth of Material Well-Being and Culture of Workers.**

Socialist construction in the people's democracies is accompanied by a steady increase in the material well-being and culture of the working people. This is the operation of the basic economic law of socialism. As a result of the rapid growth of industry in 1948-1949, unemployment in both urban and rural areas was eliminated in the people's democracies. From year to year the number of workers employed in socialist enterprises is growing.

On the basis of the rise of socialist production, there is an increase in national income. With the abolition of the landlord classes and big capitalists, the rapidly increasing national income is used in the interests of improving the

well-being of the working people and socialist expanded reproduction in town and country.

The real wages of workers and office workers and the incomes of peasants are systematically raised. Reducing prices for consumer goods is of great importance for increasing the real incomes of the population. A significant factor in the increase in real wages is the reduction of rents and the reduction in the cost of other utilities. The material well-being of the working people is also ensured by the introduction of social insurance for workers and employees at the expense of the state, free education and medical care, and the creation of a wide network of sanatoriums and rest homes.

National income in 1953 doubled in Poland compared to before the war, in Bulgaria compared to 1939—by 86.7%, in Czechoslovakia compared to 1937—by 60%.

In Poland, the real per capita income of non-agricultural workers in 1953 was 40% higher than in the years immediately preceding the war.

The real per capita income of the rural population was 75% higher than in 1938. In Hungary, in the first half of 1954, the real wage of the factory worker was 57% higher than in 1938; the real income of the peasant family was 50% higher than in 1938. In Romania, the consumption of working families increased in 1953 compared to 1938: for bread—by 20%, for sugar—by 48%, for vegetable oil—by 164%. The consumption of rye and wheat by the Romanian peasantry for personal needs increased by 50% over the same period. The real wages of workers and employees in Bulgaria were 38% higher in 1953 than in 1939.

In Bulgaria, health expenditures in 1953 were 6 times higher than in 1939. The number of hospital beds in 1952 increased to 24,522 from 10,492 in 1939.

The construction of socialism is inextricably linked with the cultural revolution. In the people's democracies, the broadest strata of the working masses are introduced to

culture and knowledge. The revolution put an end to the monopoly of the bourgeoisie and landlords on education and culture. Education and culture have become the property of the whole nation. A new culture is being created, socialist in content and national in form. The socialist culture of the USSR, which is profoundly international in character, exerts a great influence on the development of national cultures in the countries of people's democracy. A new, socialist intelligentsia is being formed at an accelerated pace. Engineering and technical personnel are growing.

In the countries of popular democracy, laws have been issued on compulsory education for children from the age of 7 and on the elimination of illiteracy among the population aged 12 to 40. In Romania, in 1953/54, the number of students in seven-year schools increased by 4.7 times compared to the pre-war period of 1938/39, in secondary schools—by more than 4 times, in higher educational institutions—by more than 2.2 times—from 29 thousand to 64.3 thousand, not counting 19 thousand part-time students.

In old Poland, in 1937/38, there were 28 higher education institutions with 48 students thousands of students, including no more than 5% of the children of workers and 9% of the children of peasants. In 1953, there were 83 institutions of higher education in Poland, with 134,000 students, the vast majority of whom were children of workers and peasants.

In Hungary, in 1953, the number of students in secondary schools was 2.5 times higher than in 1938, in lower secondary schools—3 times, and the number of students in higher education institutions increased almost 5 times.

The People's democratic States are already far ahead of many capitalist countries in training highly qualified specialists. In Poland 423 students per 196 inhabitants, in Bulgaria - 244, while in England - 500 inhabitants, in Turkey - 820.

The successes of socialist construction in the people's democracies are further proof that the capitalist mode of

production has outlived its usefulness, that the socialist economic system has indisputable advantages over the capitalist system.

## **BRIEF CONCLUSIONS**

*1. The people's democratic revolution in the countries of Central and South-Eastern Europe - Poland, Czechoslovakia, Hungary, Rumania, Bulgaria and Albania - first of all completely solved the problems of the bourgeois-democratic revolution. The anti-feudal character of the revolution was expressed in the implementation of revolutionary agrarian reforms. The landlords' land was confiscated and divided among the landless and landless peasants. The anti-imperialist character of the revolution was expressed in the fact that it liberated the peoples of Central and South-Eastern Europe from the yoke of imperialism and ensured their national independence. Simultaneously with the solution of anti-feudal problems, the bourgeois-democratic revolution grew into a socialist revolution, which was expressed in the socialist nationalisation of large-scale and medium-sized industry, transport, banks, foreign trade, and wholesale domestic trade. The people's democratic state began to successfully perform the functions of the dictatorship of the proletariat. People's democratic power is based on a close alliance between the working class and the toiling peasantry under the leadership of the working class.*

*2. The economy of the people's democracies in the transition period from capitalism to socialism is characterised by the presence of three main economic structures: socialist, small-scale commodity, and capitalist. The leading role belongs to the socialist system. The people's democratic states, proceeding from objective economic laws and relying on the socialist sector, pursue a*

*policy of building socialism in the struggle against capitalist elements.*

*3. The socialist industrialisation of the people's democracies is a decisive condition for overcoming their technical and economic backwardness, building socialism and ensuring the growth of the people's well-being. Thanks to the advantages of socialist forms of economy and mutual aid and cooperation within the socialist camp, the people's democracies were transformed from agrarian and agrarian-industrial into industrial-agrarian ones.*

*4. For the victory of socialism in the people's democracies, the socialist transformation of agriculture is necessary. The socialist transformation of peasant farms is taking place in these countries through their gradual production cooperatives on a voluntary basis, while private peasant ownership of land is preserved. The socialisation of the whole land will be the result of the development of higher forms of production cooperatives.*

*5. The construction of socialism in the people's democracies has led to a significant rise in the material and cultural standard of living of the working people: the elimination of unemployment, the growth of the real wages of the workers and the real incomes of the peasants. In order to ensure a further rise in the well-being of the working people, it is necessary to eliminate the disproportion between the rapid growth of industry and the backwardness of agriculture. The development of agriculture is ensured by the further development of production cooperatives and also by the use of reserves and inexhaustible possibilities for the development of individual peasant farming.*

## **CHAPTER XLI. THE ECONOMIC SYSTEM OF THE PEOPLE'S REPUBLIC OF CHINA**

### **The Economic Prerequisites of the Chinese People's Revolution.**

Before the victory of the People's Revolution, China's economy was semi-feudal and semi-colonial. The semi-feudal nature of the economy was expressed in the fact that the landlords, making up 4-5% of the rural population, owned more than half of the total land; the poor and middle peasants, making up 90% of the rural population, owned only 30% of the total land. Pre-capitalist forms of exploitation of the peasantry were widely used; the land was cultivated in primitive ways. The semi-colonial situation of the country was expressed in the fact that all the main sectors of the Chinese economy were under the direct or indirect control of foreign imperialists and depended on them.

In China, landlords, as a rule, did not run large farms, but leased land to peasants in small plots. Rent was the most common form of land use. Land leases for an indefinite period and perpetual leases were predominant. The most widespread forms of pre-capitalist rent were labour, food, and money rents. The peasants rented land on the basis of sharecropping, paying the landowner from 50 to 70% of the harvested crop for renting land and equipment. Moneylenders and landlords charged the peasants huge interest rates for loans.

The bulk of the peasants, the poor and middle peasants, were forced to apply for loans in money and in kind to landlords and usurers. About 60% of all peasant farms constantly resorted to the 'help' of usurers to pay taxes, about half of the peasants systematically lacked food and were forced to borrow it from the rich.

China was enslaved to the imperialist Powers, mainly Britain, Japan, and the United States of America. Foreign capital in industry accounted for up to 75% of the total amount of invested capital, while national capital accounted for no more than 25% of this amount. Since the 1930s, American imperialism has dominated China. The United States accounted for 23% of foreign trade in 1936 and 53% in 1946 China.

The ruling clique of landlords and comprador bourgeoisie in China contributed in every possible way to the introduction of American monopolies into the country's economy. The U.S. imperialists strenuously plundered the Chinese people. They controlled industry, foreign and domestic trade, and finance. All this put the already underdeveloped industry, which accounted for no more than 10% of the country's total industrial and agricultural output, in a difficult situation. There was almost no heavy industry, and the predominant part of industrial products was produced by small handicraft enterprises and manufactories.

The semi-feudal nature of China's economy determined the class structure of the country's population.

*The landlords* were the most reactionary of all classes in Chinese society. They served as the main support for the foreign imperialists in colonial oppression and plunder of the people.

The peasantry is the largest class in China. With the penetration of commodity relations into the countryside, a process of class differentiation took place among the peasantry. On the eve of the victory of the People's Revolution, farm labourers (landless) and poor (low-land) They made up 70% of the village's population, the middle peasants - 20%, and the Kulaks - 5 - 6%. The Kulaks made extensive use of hiring labour (farm labourers), combining capitalist exploitation of the peasantry with semi-feudal methods of exploitation.



In the XX century, in connection with the development of capitalism, new classes entered the arena of social life: the bourgeoisie and the proletariat.

From the very first steps of its existence, *the bourgeoisie* in China has been dependent on foreign imperialists. The large-scale industrial and financial bourgeoisie that had grown up was closely linked to the foreign imperialists, mainly American, British, and Japanese. This comprador bourgeoisie, which served as an intermediary between the foreign imperialists and the Chinese market, concentrated in its hands considerable wealth obtained through the ruthless exploitation of the masses of workers and peasants. The other part of the bourgeoisie was the national (mainly middle) bourgeoisie. The foreign imperialists hindered the development of domestic industry in every possible way. In view of this, the national bourgeoisie was in opposition to the foreign imperialists and the comprador bourgeoisie.

In China there are significant strata of the urban petty bourgeoisie: handicraftsmen, artisans, and small traders.

On the eve of the victory of the People's Revolution, the industrial proletariat numbered about 4 million people. Along with the workers of the factory industry in the country, there were many millions of proletarians and semi-proletarians employed in other industries: port and city workers for loading, unloading and transporting goods (coolies, rickshaws), workers in earthworks, as well as the agricultural proletariat (farmhands), which numbered several tens of millions of people before the revolution. The industrial proletariat, being the most organised, class-conscious, advanced detachment of the working masses, has had a decisive influence on the political life of the country since the 1920s.

The state of the landlords and the comprador bourgeoisie, with its military-bureaucratic machine, plundered and oppressed the Chinese people. Feudal

methods of exploitation and imperialist oppression exacerbated class contradictions to the extreme and brought the country to the brink of economic and political catastrophe. The people's revolution was the only way out of this situation.

## **The Character of the Chinese Revolution.**

The People's Revolution in China, which triumphed in 1949, had deep historical roots. For almost three decades, the masses of the country, under the leadership of the working class, led by the Communist Party, waged a stubborn armed struggle against the rule of the feudal lords and the comprador bourgeoisie, against foreign imperialism. The main task of the Chinese revolution in its first stage was the abolition of semi-feudal relations, the abolition of feudal land ownership, and the division of landlords' land by the peasants. In view of this, the Chinese revolution began as *an anti-feudal, peasant, i.e., bourgeois-democratic revolution*.

At the same time, as foreign imperialists seized and controlled the main industries, railways, and banks, the struggle against imperialism also became one of the most important aspects of the Chinese revolution. "The bourgeois-democratic revolution in China is a combination of the struggle against feudal remnants and the struggle against imperialism."<sup>182</sup>

Thus, the Chinese bourgeois-democratic revolution, being an agrarian, anti-feudal revolution, at the same time acquired a pronounced *anti-imperialist, national liberation* character.

The main driving forces of the Chinese people's revolution were the working class and the peasantry. The

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<sup>182</sup> J. V. Stalin, *Revolution in China and the Tasks of the Comintern*, Works, vol. 9, pp. 286 - 287.

working class and the peasantry under its leadership formed the main army of the revolution, which ensured the victory of the Chinese people over their internal and external enemies. In the Chinese revolution, moreover, the urban petty bourgeoisie played a significant role.

The revolutionary struggle of the Chinese people is led by the Communist Party of China, which is guided by the theory of Marxism-Leninism, creatively applies this theory to the conditions of its own country, and uses the experience of the victorious revolution in the Soviet Union. The Chinese revolution enjoys the sympathy and support of the international proletariat and all the progressive forces of the world.

The historical peculiarity of the Chinese people's revolution is that it unfolded in conditions where there is a socialist camp headed by the Soviet Union, when socialism has triumphed in the USSR and a gradual transition to communism is being carried out, and in the European countries of people's democracy the foundations of socialism are being created. Under these conditions, the Chinese revolution could not be a revolution that established the dictatorship of the bourgeoisie and opened up a freer path for the development of capitalism. It was a bourgeois-democratic revolution of a *new type*, which inevitably grew into a socialist revolution, establishing the dictatorship of the working people under the leadership of the working class.

Developing Lenin's teachings on the nature of colonial revolutions in the era of the general crisis of capitalism and on the development of the bourgeois-democratic revolution into a socialist one, Mao Tse-tung writes: "The revolutionary movement led by the Communist Party of China as a whole is a single revolutionary movement, covering both the stage of the democratic revolution and the stage socialist revolution. These are two revolutionary processes of different nature, and only after completing the first of them can one begin to complete the second. The democratic revolution is a

necessary preparation for the socialist revolution, and the socialist revolution is the inevitable direction of development of the democratic revolution. The ultimate goal of all communists is to fight with all their might for the final construction of a socialist society and a communist society.”<sup>183</sup>

In its bourgeois-democratic stage, the Chinese revolution successfully solved the problem of overthrowing the power of the feudal landlords and the big monopoly comprador bourgeoisie by the masses of the people, led by the proletariat, the rule of foreign imperialism, and the establishment of a people’s democratic republic.

The People’s Republic of China is a people’s democracy led by the working class and *based on the alliance of workers and peasants*. People’s democratic power, led by the working class, is a powerful instrument for building socialism in the hands of the working people.

At the socialist stage of the revolution, the people’s democratic government began to carry out socialist transformations in the economy, at the same time completing the solution of the tasks of the bourgeois-democratic revolution. China has entered the *transition period* to socialism.

The greatest significance of the Chinese revolution lies in the fact that it has opened up to a vast country a non-capitalist path of development from semi-feudal and semi-colonial forms of economy to socialism. This is the main specific feature of the economic development of the People’s Republic of China in comparison with the European countries of people’s democracy. In pre-revolutionary China, capitalism did not occupy a dominant position in the entire national economy. China was an agrarian country dominated by semi-feudal relations. Due to the semi-colonial nature of the economy, large-scale industry was extremely poorly

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<sup>183</sup> Mao Tse-tung, *The Chinese Revolution and the Communist Party of China*, Selected Works, vol. 3, pp. 180 - 181

developed, which is found by the socialist revolution in the capitalistically developed countries. The dominance of semi-feudal relations caused the technical and economic backwardness of the country. Under the new historical conditions, with the existence of a powerful socialist camp headed by the Soviet Union, and with the help of this camp, the possibility of successfully building socialism has opened up before China.

The People's Democratic Government, taking advantage of these opportunities and relying on the support of millions of people, carried out the most profound revolutionary transformations in the Chinese economy in the shortest possible time and led the country along the path of building socialism, bypassing the capitalist stage of development.

## **Revolutionary Agrarian Transformations. Socialist Nationalisation.**

Among the radical socio-economic transformations in the People's Republic of China, agrarian transformations are of great importance. The semi-feudal character of social relations in China was the main obstacle to the country's economic, political, and cultural development, the root cause of its age-old backwardness, and the basis of its enslavement by foreign imperialism.

In 1950, the Central People's Government of China promulgated the "Law on the Agrarian Transformation of the People's Republic of China", which states: "The system of land tenure based on feudal exploitation by the landlord class is abolished; A system of peasant land tenure is being introduced in order to liberate the agricultural productive forces, develop agricultural production, and pave the way for the industrialisation of the new China." According to this law, the land holdings of landowners, churches and

monasteries were confiscated free of charge. Draught animals, agricultural implements, surplus food, and superfluous buildings were also confiscated from the landlords.

Confiscated land and other means of production were distributed equally among the peasants (per capita), regardless of age, sex and nationality. The main share of the landlords' land and implements was received by landless and land-poor peasants. All the debts of the peasants to the landlords for the lease of land and to the usurers for loans were liquidated. Agrarian reforms were carried out by the people's democratic government with the active participation of the broad peasant masses. By the beginning of 1953, agrarian reform had been completed throughout the country (with the exception of a small number of areas inhabited by national minorities) in an area with a rural population of about 450 million people. Landless and landless peasants received 47 million hectares of cultivated land.

In People's Democratic China, the old, feudal tax system, under which there were many state and local taxes in the countryside, was abolished, and taxes were levied on the population for many years in advance.

The agrarian revolution in China completely abolished feudal-landlordism, the medieval system of agrarian relations, and the feudal exploitation of the peasantry. The landlord class was abolished. Instead of landlordism, small-peasant private ownership of land was established.

The people's democratic government in China, while carrying out the agrarian transformations that completed the bourgeois-democratic revolution, at the same time passed over to the path of socialist transformation.

It carried out socialist nationalisation: it confiscated and transferred to the ownership of the people's state all the industrial, agricultural, and other enterprises of the Kuomintang's so-called state monopolies ("bureaucratic capital"). Of great importance in seizing the commanding

heights of the economy was the confiscation and transfer to state ownership of the largest banks in China, which belonged to representatives of comprador capital.

All unequal treaties with foreign countries, all the old customs laws and regulations under which foreign imperialists -- American, British, Japanese and others -- plundered the Chinese people and stifled domestic industry were abolished. Most of the enterprises owned by foreign capital have been requisitioned. *State control over foreign trade* was established. China has finally freed itself from imperialist enslavement.

The peculiarity of the socialist nationalisation carried out by the people's democratic government in China is that it did not affect the property of the national bourgeoisie, which is for the most part the middle bourgeoisie.

Socialist nationalisation in China ensured the creation of the state socialist sector, which is the most important economic support of the people's democratic state in economic and cultural construction.

## **Forms of Ownership of the Means of Production and the Class Structure of Society in the People's Republic of China.**

As a result of the revolutionary agrarian transformation and the socialist nationalisation of large-scale industry and banks, fundamental changes took place in the Chinese economy. The large-scale capitalist property of the comprador bourgeoisie and foreign monopolists was replaced by socialist ownership of the whole people, and the feudal-landlord property was replaced by the private property of the peasants.

At present, the People's Republic of China has the following forms of ownership of the means of production:

state, i.e., public ownership; cooperative ownership; small-scale private property of individual workers - peasants and artisans; capitalist property.

*The state, the property of the whole people* is socialist. It embraces enterprises formerly owned by monopoly capital and foreign capitalists, nationalised by the people's democratic government, as well as enterprises newly created by the state after the victory of the revolution: factories and plants, mines and power stations, railways and other means of transport, means of communication, etc.

The subsoil of the earth, the waters, as well as the forests, virgin lands and other natural resources defined by law as state are also state property and belong to the entire people. In the field of agriculture, state property is machine-tractor, rolling and agro-technical stations organised by the state and state agricultural enterprises - state farms. In the sphere of circulation, the state owns trading enterprises that play a decisive role in wholesale trade. Almost all foreign trade and almost all banking are in the hands of the state.

In 1952, 80% of heavy industry and about 50% of light industry (not including handicraft production) were already concentrated in the hands of the state. The share of the socialist structure in industry and trade is growing rapidly. In 1949, state-owned enterprises produced 43.8% of the country's total industrial output, and in 1952—67.3%. The share of wholesale and retail state and cooperative trade in 1950 was 44.4% of the total domestic trade turnover, and in 1952—62.9%.

The state controls all foreign trade directly concentrates in its hands about 90% /about all import and export operations, including all trade with the USSR and people's democracies. State People's Bank has a monopoly right to issue and controls over 90% of all deposits and loans.

In 1950, for the first time in Chinese history, a unified state budget was drawn up, had a real basis. Since 1951, the budget has been implemented with revenues exceeding



expenses. About 60% of budget funds in 1953-1954. was sent to national economic and cultural construction.

State and national ownership of the means of production forms the basis of socialist industrial relations of production. The State economy is the leading force of the entire national economy and the material basis for the implementation of socialist transformations by the people's democratic State.

On the basis of socialist ownership of the means of production by the whole people, the basic economic law of socialism began to take shape in the state economy and manifest its effect. The purpose of state socialist enterprises is to meet the growing material and cultural needs of the working people. Socialist industrial production is being armed with advanced technology. But the effect of the basic economic law of socialism is still very limited, since in the national economy of the country private property forms of economy are predominant.

In opposition to the law of competition and anarchy of production, the economic law of planned (proportional) development of the national economy arises and begins to operate. The People's Government of China, relying on state socialist ownership of the means of production, . . . carries out current and long-term planning of the national economy. State-owned enterprises are developing more and more according to the plan, economic calculation is applied to them, and workers and employees are paid in accordance with the quantity and quality of the labour expended by them. The state sets the prices of the most important products of industrial and agricultural production, regulates the circulation of money, and controls foreign trade. In this way, the state exerts a regulatory influence on other, non-socialist sectors of the national economy.

*Cooperative ownership* embraces supply and marketing, credit, and consumer cooperatives, production cooperatives, and trade artels. In contrast to state enterprises, which are based on socialist ownership by the whole people,

cooperative enterprises are the property of individual collectives and organisations. The most developed forms of cooperatives are socialist in nature.

At the same time, the cooperative sector includes the simplest types of cooperatives, which are only the embryos of socialist forms of economy. These cooperatives include, for example, temporary, seasonal groups of mutual labour assistance, in which the collective labour of peasants is used to carry out some work in the fields of individual farms. At the same time, not only private ownership of land is preserved, but also of the tools of agricultural production, as well as of the products produced. With the further socialisation of the means of production and labour, these simplest forms of cooperatives will gradually be transformed into large-scale socialist collective farms.

Cooperation in the sphere of circulation is represented mainly by rural supply and marketing cooperatives, which are engaged in supplying their members with consumer goods, agricultural implements, fertilizers and purchasing products from them.

Supply and marketing co-operatives are under the guiding influence of state trade and contribute to the strengthening of economic ties between the small-scale peasant economy and the state socialist economy, to the strengthening of planning in the supply of industrial goods to the peasants and also in the matter of state purchases of grain, cotton, and other raw materials for industry. Credit cooperatives are linked to the State People's Bank, which directs its activities and assists it with funds. The people's democratic state does everything in its power to help the development of the production co-operatives of individual peasants and artisans, promoting its gradual transition from lower to higher forms.

As of April 1954, more than 50% of all peasant households were in temporary and permanent mutual aid groups. There were more than 90 thousand agricultural production cooperatives in the country, which consisted of 1,660 thousand

peasant farms. By the time the first five-year plan is implemented (1957), 35% of all peasant farms and about 40% of the total cultivated area of the country will be united into agricultural production cooperatives. In 1954, the supply and sales cooperation brought together 150 million people. Credit cooperatives in rural areas are represented in the form of agricultural credit cooperatives. There are currently 9,400 credit cooperatives in the country, with 6 million members.

*Small-scale private ownership* of land and other means of production, based on personal labour, embraces the vast masses of peasant farms and artisans. As a result of the revolutionary agrarian reforms, the stratum of the middle peasantry increased dramatically and the number of poor peasants and farm labourers, who, having received land, began to run their own farms, significantly decreased.

A significant part of the peasants in the remote and sparsely populated regions of China (Tibet, Xinjiang, and Inner Mongolia) conduct a subsistence and semi-natural (patriarchal) economy in the form of primitive agriculture and nomadic cattle breeding, which satisfies the personal needs of the peasants and has very little connection with exchange and the market.

Small-scale private ownership of the means of production is also represented by handicraft production, which is especially widespread in the countryside, small commercial establishments in the cities, and small workshops for public services.

Due to the fact that China is an agrarian country with underdeveloped industry, small-scale commodity production occupies a predominant place in the economy.

There are over 100 million small and tiny farms in the Chinese countryside. There are about 30 million artisans in the country. Agriculture continues to be based on dispersed and backward small-peasant production. The land is fragmented into dwarf plots and is cultivated by manual labour of peasants or with the help of working cattle with old, primitive

agricultural tools. Most of the industrial goods consumed by the peasantry are produced by handicraftsmen and artisans.

Small-scale peasant and handicraft production inevitably gives rise to capitalist elements. In the countryside there is a class differentiation of the peasantry into poor peasants and kulaks. But it is limited in the conditions of a people's democratic state.

In the small-scale commodity sector, the law of value, which manifests itself in a spontaneous form, plays a regulating role. The law of value also has a significant impact on production in state and cooperative enterprises. To the extent that state and co-operative property is strengthened and the law of planned development is expanded, the state is becoming more and more aware of the law of value, money, and trade, and is transforming them into instruments of socialist construction.

The people's democratic state renders assistance to the individual farms of peasants and artisans in the utilisation of their productive potential, while at the same time it does its utmost to encourage them to adopt the socialist path of development through co-operation on the basis of strict observance of the principle of voluntariness.

*Private capitalist ownership* of the means of production includes capitalist industrial enterprises in the cities, kulak farms in the countryside, and enterprises of merchant capital, and occupies a large place in the Chinese economy. This form of ownership also includes numerous handicraft workshops with hired labour and manufactories, the number of which is quite considerable.

In 1952, private capital held 31% of the output of large-scale industry, at least half of all light industry, and 70% of all retail trade turnover. As for the kulaks, they were partly expropriated in the course of the civil war and the revolutionary agrarian reforms. At present, the proportion of

kulaks in the Chinese countryside is: in the old liberated areas—about 1%, and in the areas liberated later—from 2 to 4%.

The law of value is the regulator of capitalist economies. The law of surplus-value continues to operate in capitalist enterprises.

Since at the present stage there are no economic prerequisites for the replacement of capitalist production by socialist production, there is a need to use industrial, handicraft and commercial enterprises in the hands of private capital to raise the economy. The People's Government of China, in order to increase industrial and agricultural production in the country and to develop trade, grants loans to private enterprises, gives them orders for the production of certain types of goods, supplies them with raw materials, and buys finished products from them.

At the same time, a policy is being pursued to limit the exploitative tendencies of the capitalists in the towns and the kulaks in the countryside. The bourgeoisie strives to expand and intensify the exploitation of the working class and the peasantry, to inflate the prices of basic necessities in circumvention of the existing laws of the people's government, to weaken the control of the working class in private enterprises, etc. The people's government suppresses the activities of the capitalists, which disorganise the economy, undermine the state plans and thereby harm the state and the people, and strengthens its regulatory role in relation to the bourgeoisie. private capitalist enterprises in the interests of the development of the national economy as a whole. The tax policy of the people's power plays an essential role in restricting capitalist elements in town and country.

State capitalism is of particular importance in China's transition economy. *State capitalism* is represented mainly by mixed industrial and commercial enterprises, banks, and credit societies in which the state and private capital participate. These enterprises operate under the control of

the state. About a quarter of the profits of state-capitalist enterprises fall into the hands of the capitalists, and the rest goes in the form of income tax to the state, to improve the material and living conditions of the workers, and to expand the equipment of the enterprises. In 1952 the share of state-capitalist enterprises in the output of large-scale industry was 6 per cent.

The Chinese People's Government encourages the transition of private capitalist enterprises to various forms of state capitalism in order to gradually replace capitalist ownership with state ownership by public ownership.

Thus, in the modern economy of China, there are three main economic structures: socialist, small-scale commodity, and capitalist.

In accordance with the changes in the economy, the class structure of society has changed. The main classes in the People's Republic of China are the working class and the *peasantry*. In addition, there is a class of the national bourgeoisie in the cities and the kulaks in the countryside, as well as a large section of the urban petty bourgeoisie.

Decisive for the success of socialist construction is the strengthening of the alliance of workers and peasants under the leadership of the working class. That is the basic condition for drawing the peasant masses into the construction of socialism. The policy of people's power is directed to the all-round development of the economic bond between state industry and peasant farming and to the co-operation of peasant farms. Since, at the present stage, a socialist industry capable of providing a basis for large-scale machine production for agriculture has not yet been established, the industrial bond between town and country has not yet been developed. Economic relations between town and country are carried out mainly in the form of a *trade bond*. The state is developing state and cooperative trade in every possible way, ousting private capital from commodity turnover. In order to meet the country's food

needs and to overcome spontaneous capitalist tendencies, the state began to carry out planned grain harvesting in the winter of 1952-53.

The fundamental class contradiction in the transition period is the contradiction between the working class and the toiling masses of the peasantry, on the one hand, and the bourgeoisie in the towns and the kulaks in the countryside, on the other. The socialist transformation of China's economy is accompanied by a sharp class struggle.

## **The Ways of China's Socialist Industrialisation.**

During the recovery period, great strides have been made in the development of China's economy. As early as 1952, the main branches of industry and agriculture were producing more than they had ever been in the past. The relative importance of socialist forms of economy has grown, and their leading role in the entire national economy has been strengthened. The successful growth of agriculture and the increase in the incomes and purchasing power of the peasant masses create a broad domestic market, and millions of peasants demand industrial products: agricultural implements, textile, leather, and other branches of industry. Developing agriculture supplies industry and cities with raw materials and foodstuffs on an ever-increasing scale. Trade is expanding, and the financial system and money circulation are being strengthened. Since 1953, China's economy has shifted from economic recovery to socialist economic reconstruction.

The Communist Party of China, taking into account the economic structures and classes of the transition economy, knowing and using the economic laws of society's development, determined the general party line for the

entire transition period. In 1953. Mao Tse-tung said: 'The general line and central tasks of the party during this transition period are to gradually implement the socialist industrialisation of the country over a fairly long period of time, gradually implement the socialist transformation of agriculture, handicraft industry, and private trade and industry. This general line is a beacon that illuminates all our work. To carry out any work in isolation from it is to commit the mistake of a right-wing deviation, or a left-wing deviation.'<sup>184</sup> The system of people's democracy in China makes it possible to eliminate exploitation and poverty and build a socialist society.

The first *five-year plan for the development of China's national economy* (1953-1957) was the beginning of the implementation of this general line developed by the Communist Party and the People's Government. The main economic task of the First Five-Year Plan is to develop heavy industry and create the basis for the industrialisation of the country. The Five-Year Plan outlines a further upswing in transport, light industry, agriculture, and the expansion of trade. Particular attention was paid to the development of cooperation in agriculture and handicraft industry. In the First Five-Year Plan, the predominant development of socialist forms of economy is ensured.

In the development of China's economy on the road to socialism, the industrialisation of the country is of primary and decisive importance.

As already mentioned, in pre-revolutionary times, Chinese industry had a colonial and semi-colonial character. The main part of it was light industry, mainly cotton, concentrated mainly in Shanghai-the centre of the dominance of foreign capital. In most cities and districts, there was no industry or it was very poorly developed. Heavy industry enterprises were mainly repair factories (shipyards, railway workshops) owned

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<sup>184</sup> See Pravda, June 22, 1954.



by foreign capital, as well as poorly equipped mines and factories that supplied raw materials and semi-finished products to the imperialist States. The metallurgical industry was extremely weak, and there was no real machine-building industry.

The task of China's socialist industrialisation is to transform an agrarian, economically backward, formerly semi-feudal and semi-colonial country into a powerful socialist industrial power. In spite of enormous difficulties (technical backwardness, lack of qualified industrial personnel, unexplored natural resources, etc.), China has favourable conditions and enormous opportunities for the solution of this historic task.

China, with a population of 600 million, has huge human reserves. The Chinese working class, led by the Communist Party, is in charge of economic and cultural construction. As the advanced class of society, by its example of self-sacrificing work, organisation and discipline, it unites the broadest strata of the working masses in the struggle for socialism. A friendly alliance of workers and peasants has been formed and strengthened in the country, and the industrialisation of the country is actively supported by hundreds of millions of peasants.

China has abundant natural resources for the development of all branches of industry, especially heavy industry. The industrialisation of China is carried out through the construction of enterprises equipped with the latest technology. The People's Republic of China is receiving first-class equipment from the Soviet Union and the European People's Democracies and is borrowing a wealth of technical experience and experience in organizing labour and production in large-scale socialist enterprises.

The government of the Soviet Union is assisting China in the construction and reconstruction of 141 major industrial facilities: metallurgical plants, enterprises for the production

of non-ferrous metals and for the extraction of coal and oil, machine-building plants, automobile plants, tractor plants, power plants, and so on.

In their economic policies, the Communist Party and the People's Government of China have consistently carried out the task of systematically, systematically, and rapidly developing heavy industry—the mining, metallurgical, machine-building, coal, chemical, and electrical industries. Along with the reconstruction and expansion of old plants, factories, mines and mines, large investments are being made in the construction of new heavy industry enterprises.

The industrialisation of the country means a predominant increase in the production of means of production, which is a necessary condition for increasing the production of means of consumption. Accordingly, as early as 1952, the share of heavy industry reached 43.8 per cent of the value of all industrial output, as opposed to 32.5 per cent in 1949. After the completion of the construction of these enterprises, the production capacity of the industry will increase significantly. China will have its own heavy industry, providing the basis for the country's industrialisation.

The machine-building industry is being widely developed. In 1933, mechanical engineering accounted for only 1% of China's total large-scale industry. Most of the machine-building factories were mainly engaged in the repair and assembly of machines and machine tools, the parts of which were imported into China from the imperialist countries.

Over the past few years, China's machinery industry has developed rapidly. If we take the total value of the output of state machine-building enterprises in 1949 as 100, then in 1950 it was 282%, in 1951—473, in 1952—776 and in 1953—1,273%, that is, in four years the output of the machine-building industry in value terms increased 4 times.

A seamless pipe factory, a steel rolling plant and two blast furnaces of the Anshan Metallurgical Plant were built and put

into operation, and the largest Haizhou open-pit coal quarries in Fuxing were established.

A characteristic feature of socialist industrialisation is the more rapid growth of state industry. During the First Five-Year Plan, the total output value of China's entire industry will roughly double that of 1952, i.e., the average annual increase will be 15 per cent, and the total value of the output of state industry, including local state industry, will increase by about 2.5 times, an average increase of about 20 per cent per year.

The rapid development of industry requires considerable savings. The sources of funds for this purpose are, first of all, the savings created in the state sector of the economy, the income from domestic and foreign trade, then the taxes levied on capitalist enterprises, as well as the taxes received from the population.

The main funds allocated for the development of the national economy belong to the state and go to the socialist sector of the economy; The capitalist sector, on the other hand, has much less capital investment. In view of this, the absolute size and relative importance of the state sector will increase rapidly, while the relative importance of the capitalist economy will decrease.

One of the main conditions for the successful development of China's national economy is the growth of the labour productivity of workers and peasants. Labour competition is developing among the workers of state-owned enterprises to increase production, improve the quality of products, save raw materials, and make better use of equipment. Production leaders receive material incentives. There are thousands of labour heroes who have been awarded government awards.

## **Gradual Socialist Transformation of Agriculture.**

At present, the basis of agriculture is small peasant farming. The use of the production opportunities available in this economy is a necessary condition for further increase in agricultural production. Revolutionary agrarian transformations in the Chinese countryside had a significant impact on the development of the productive forces of agriculture and on the condition of the peasant masses. For the first time in the history of the country, measures aimed at a significant development of agricultural production are being carried out on a national scale. Needy peasants are provided with government assistance in the form of seeds and credit. Pest control has been organised. Modern agro-technical knowledge is being promoted. With the participation of the broad masses of the peasantry, the People's Government of China is carrying out irrigation works, which are of great importance to the most important agricultural regions of the country and are relieving tens of millions of peasants from floods.

An example of the largest hydrotechnical construction projects is the hydrotechnical construction in the Huaihe River basin, which employed 2 million people for three years. 77 riverbeds with a total length of 3,000 kilometres have been cleaned and re-laid, and 104 sluices have been built. Only one dam in the lower Huaihe river saves 20 million farmers from flooding. According to incomplete data, from 1950 to 1953, the peasants themselves built more than 6 million small irrigation channels, ponds and reservoirs, dug more than 800 thousand wells, restored and built more than 250 large irrigation structures. Thanks to this, the area of irrigated land has been increased by 56 million mu<sup>185</sup>.

In early May 1954, the construction of China's largest Guanting reservoir in the upper reaches of the Yundinghe River

(Northern China) was completed, which prevents flooding in the Beijing and Tianjin area.

In 1952, agricultural production was fully restored, and agricultural output reached the highest level in Chinese history, far exceeding the maximum pre-war production levels. The gross grain harvest in 1952 was 145%, and cotton about 300% in relation to 1949. The first five-year plan calls for a 30% increase in grain production compared to 1952. It is expected that in two five-year periods or a little more, the grain harvest will reach 275-300 million tons, which is 70% higher than in 1952 and will amount to 500 kilograms of grain on average per person per year.

In spite of significant successes in the development of agriculture in China, small peasant farming, based on the private ownership of the means of production by the toiling peasantry, is unable to satisfy the ever-growing needs of the people, especially the rapidly growing urban population, for food, and for industry for agricultural raw materials. On the basis of small peasant farming, it is impossible to eliminate the differentiation of the main mass of the peasantry and to radically improve their condition.

The victory of the people's democratic revolution opened up a non-capitalist path for the development of China's agriculture, the path of its gradual socialist transformation. The Communist Party and the People's Government of China, rejecting the capitalist path of development, have outlined and are carrying out a plan for the gradual voluntary transition of the peasants from small-scale privately owned peasant farming to large-scale collective socialist farming.

The Resolution of the Central Committee of the Communist Party of China "On the Development of Agricultural Production Cooperation" (December 16, 1953) states:

"With a view to the further development of the productive forces in agriculture, the Party has set itself the following central task of its work in the countryside: to educate the peasant masses and promote their gradual

unification and organisation, using forms and methods that are understandable and acceptable to the peasants; To gradually carry out socialist reforms in agriculture in order to transform agriculture from backward small-scale individual farming into advanced and highly productive co-operative farming, to gradually eliminate the disproportion in the development of industry and agriculture, and to enable the peasants gradually to get rid of poverty and achieve a prosperous and happy life.”<sup>186</sup>

In China there are the following forms of cooperative associations of peasants, differing primarily in the degree of socialisation of the main means of production.

The cooperatives of the peasants in the sphere of circulation in the form of *supply*, *marketing*, and *credit co-operation* are becoming more and more widespread. These types of cooperatives help the peasants to gradually free themselves from exploitation by traders and usurers. They assist the peasants in selling food and agricultural raw materials to the state, in supplying the countryside with means of production and articles of consumption, in granting credit to the peasants at low interest rates, and in developing savings. They help to organize the production cooperatives of peasant farms: mutual aid groups and agricultural production cooperatives.

*Temporary self-help groups* are set up to carry out some agricultural work in the fields of individual peasants by joint labour, while maintaining private ownership of land and instruments of production. *Permanent self-help groups* carry out basic agricultural work on the farms of individual peasants on the basis of collective labour. Many permanent groups unite the labour of peasants not only in agriculture, but also in subsidiary trades. A certain division and specialisation of labour is carried out in them. Some of these groups are setting up community foundations. Being a higher form than temporary groups, permanent groups retain

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<sup>186</sup> "People's China" No. 8, 1954.

private ownership of land and instruments of production. *Agricultural producers' cooperatives* presuppose the pooling of land on a share-based basis, the socialisation of peasant means of production, the unified management of the economy on the basis of collective labour, and the creation of comparatively large social funds. In these cooperatives, income is distributed according to the size of the land share and according to the labour expended in the social economy. *The highest form of agricultural cooperation* is a production cooperative of the type of agricultural *artel* in the USSR, based on social ownership of the means of production, including land, and collective labour. In such agricultural production cooperatives, income is distributed exclusively by workdays.

An integral part of the socialist transformations carried out during the transition period is the cooperatives of small-scale individual handicraft production. Directing the development of small-scale handicraft industry along socialist lines, the People's Government of China organises handicraftsmen into various types of *artel* cooperatives (production groups in handicraft industry, supply and marketing cooperatives of industrial cooperatives, and handicraft cooperatives).

As has already been said, the predominant form of production cooperatives among peasant farms at the present stage of the socialist transformation of Chinese agriculture is the lowest, simplest forms of cooperation in the form of temporary and permanent mutual aid groups. But even these lower forms of co-operatives, owing to the joint, collective labour of the peasants, have great advantages over the individual labour of the individual peasant. Self-help groups prepare individual peasants for the transition to agricultural production cooperatives based on the socialisation of the means of production and collective labour. Agricultural production cooperatives make it possible to apply modern machinery and agricultural technology, to introduce a

rational division of labour, to organise agricultural planning, and to ensure the personal material interest of peasants in increasing labour productivity on the basis of the distribution of income according to labour.

State-owned socialist agricultural enterprises are called upon to play an important role in the cooperation of peasant farms. The first machine-tractor stations and many rolling and agro-technical stations have already been created. In 1954, there were 59 mechanised state farms and more than two thousand state farms of district and county subordination. State-owned agricultural enterprises provide real assistance to the peasants, showing in practice the advantages of large-scale mechanised farming.

The vast majority of established cooperatives do not yet have the material base of machine production. In northeast China, for example, only 2% of existing agricultural production cooperatives cultivate their land with machines provided by the first machine- tractor stations. The remaining cooperatives cultivate the land manually and with the help of livestock, using old agricultural tools or improved tools. But even in these primitive cooperatives, as a result of the simple combination of peasant means of production and collective labour, the yield of agricultural crops is 15-20%, and in some cases even 30% higher than in individual peasant farms. Agricultural production cooperatives carry out construction and repair of small irrigation structures, turning dry land into irrigation land, carry out thorough tillage and apply fertilizers, increase soil fertility, control pests of agricultural plants, develop public livestock production and increase its productivity.

The transition from the lower forms of cooperative associations to their higher form takes place gradually, taking into account the different conditions in the economic, political, and cultural development of each region, with the strictest observance of the principle of voluntariness. The Communist Party and the People's Government of China are waging a resolute struggle both against the spontaneous flow



of peasant farms in the cooperatives and against running ahead -- the transition to higher forms of cooperative associations, without preparing the material and political prerequisites necessary for this.

## **Raising the Material and Cultural Standard of Living of the Chinese People.**

Socialist construction in the People's Republic of China is accompanied by an improvement in the working conditions of workers and an increase in their well-being. In state and private enterprises, the working day is limited to 8 to 10 hours (instead of the previous 14 to 16 hours), and *collective agreements* between enterprises and workers have been introduced. The wages of workers and employees in public and private enterprises are set at the same level for the respective categories of workers. *Trade unions* have been established and operate throughout the country, in which the majority of workers and employees are united. In 1951, social insurance was introduced for workers and employees.

The Chinese people have already made great strides in cultural construction. Previously, workers and peasants did not have access not only to secondary and higher educational institutions, but also to primary schools. About 90% of the population was illiterate before the revolution. In the People's Republic of China, education has become accessible to the working masses.

The improvement in the financial situation of the Chinese people is reflected in a significant increase in the purchasing power of the population, which increased by about 20% in 1953 alone. Total volume of domestic trade in 1951 It was 130%, and in 1952-about 170% in relation to 1950 (in comparable prices). In 1952, the real wages of workers at state-owned industrial enterprises were 75% higher than in 1949.

Over the years of the republic's existence, the number of students has more than doubled. In 1953, more than 55 million children were in primary school, almost 2.4 times the maximum number of primary school students before the liberation of China. In 1953, 3.6 million people were enrolled in secondary schools, and more than 220,000 students were enrolled in higher education institutions. In 1952, about 50 million peasants attended winter schools to eliminate illiteracy.

The revolution has fundamentally changed the position of women in China. For equal work, they receive the same pay as men. During the agrarian reforms, peasant women received the same land allotment as men. Much attention is paid to the protection of motherhood and infancy. Women enjoy full political rights on an equal footing with men and are actively involved in the economic and socio-political life of the country.

The victory of the people's democratic revolution has freed the Chinese people from national enslavement and created the conditions for the economic and cultural upsurge of all the nationalities of free China on the basis of complete equality.

The victory of the revolution in China is of worldwide significance. Its role is especially great for the countries of the colonial and semi-colonial world, which, in terms of their political and economic situation, are in conditions close to those in which China was before the victory of the people's revolution. They are developing along the same path of struggle that the Chinese people have travelled.

## BRIEF CONCLUSIONS

1. *The People's Republic of China, which emerged as a result of the victory of the revolution, is a people's democratic state led by the working class and based on the alliance of workers and peasants. In the course of its development, the Chinese revolution grew from a bourgeois-democratic revolution into a socialist revolution, as a result of which China entered a period of transition to socialism.*

2. *The People's Democratic State has carried out radical socio-economic transformations. As a result of the revolutionary agrarian reforms, land and other means of production were confiscated from the landlords free of charge, which were divided among the peasants per capita, into their private property. At the same time, the people's democratic state carried out socialist transformations. As a result of the expropriation of the big comprador bourgeoisie and foreign capital, the overwhelming majority of heavy industry, part of light industry, large banks, the most important means of transport, the greater part of wholesale trade, and almost all foreign trade have passed into the hands of the people's state. This is how the state socialist sector of the national economy was formed.*

3. *In the Chinese economy after the victory of the people's revolution, there are the following forms of ownership: state, cooperative, small-scale private property of peasants and handicraftsmen, and capitalist property. The main economic structures are: socialist, small-scale commodity, and capitalist. The state socialist economy is the guiding force of the country's economy and the material basis for the state's socialist transformations. A significant role in China's industry and trade is played by private capital, which is controlled by the state and used by the people's democratic government to increase the production of manufactured goods. At the same time, state capitalism became relatively widespread.*

4. The main classes of present-day China are the working class and the peasantry. *The class struggle is taking place between the working class, which is in alliance with the main mass of the peasantry, on the one hand, and the bourgeoisie in the cities and the kulaks in the countryside, on the other, and between the socialist and capitalist elements of the national economy.*

5. *By industrializing the country and gradually transforming agriculture, the people's democratic state creates the conditions for the abolition of the exploitation of man by man and the building of a socialist society.*

## **CHAPTER XLII. ECONOMIC COOPERATION OF THE COUNTRIES OF THE SOCIALIST CAMP**

### **The Emergence and Strengthening of the Global Democratic Market.**

As already mentioned, after the Second World War, as a result of the separation of a number of countries in Europe and Asia from the capitalist system, the single world market collapsed. The countries that had fallen away from the world capitalist system and formed a socialist camp together with the Soviet Union have come together economically and have established close cooperation among themselves. In parallel with the world capitalist market, a new world democratic market has emerged.

The current participants of this market are: the Soviet Union, the People's Republic of China, Poland, Czechoslovakia, Hungary, Romania, Bulgaria, Albania, the German Democratic Republic, the Mongolian People's Republic, and the Democratic People's Republic of Korea. More than a third of all humanity lives on the territory of these states, which is equal to a quarter of the entire land area of the globe.

The countries of Central and Southeastern Europe, which had fallen away from the capitalist system, immediately after the establishment of the people's democratic system, began to establish close economic ties with the Soviet Union and mutual cooperation among themselves. These ties, based on the principles of fraternal mutual assistance, played an enormous role in the rapid economic recovery of the people's democratic states and in the solution of other urgent economic problems of the post-war period. After the

establishment of the People's Republic of China in 1949, a great power with a population of 600 million people joined the socialist camp.

With the transition of the people's democracies to the implementation of long-term national economic plans aimed at laying the foundations of socialism, economic cooperation between the states of the socialist camp entered a new stage. This stage is characterised by the transition to *long-term economic contracts and agreements* on the mutual supply of goods. Such treaties and agreements ensure that each country receives for a long period of time certain types of machinery, equipment, raw materials, and other goods necessary for the fulfilment of its national economic plans. At the same time, long-term agreements guarantee each country the sale of its products on the foreign market. The existence of stable and long-term economic ties creates a clear prospect for the further development of the economy and is one of the most important conditions for the planned construction of socialism in the countries of people's democracies.

The experience of economic co-operation between the countries of the socialist camp shows that even the most developed capitalist countries could not render such effective and technically qualified assistance to the people's democratic countries as the Soviet Union renders them and which they render to each other.

For the purpose of systematic economic cooperation between the countries of the socialist camp, the Council for *Mutual Economic Assistance* was established in 1949 on the basis of full equality of all states participating in this Council. The Council for Mutual Economic Assistance organises the exchange of economic and technical experience, the provision of mutual assistance in raw materials, foodstuffs, machinery, and equipment, and carries out planned coordination and coordination of the development of the economies of the states of the socialist

camp on the basis of a rational division of labour among them. This fully meets the interests of the most rapid development of the productive forces of each country and of the socialist camp as a whole.

Mutual cooperation among the people's democracies is growing rapidly and expanding with the growth of their national economies. The world's democratic market has the resources that allow each country to find within its borders everything it needs for its economic development.

The steady growth and strengthening of the world market of the countries of the socialist camp serves as irrefutable proof of its historical progressiveness and its decisive advantages over the world capitalist market.

The broad development of economic cooperation among the countries of the socialist camp not only does not preclude the growth of their trade relations with the countries of the capitalist part of the world, but creates favourable prerequisites and conditions for such growth. The countries of the socialist camp strive to develop business relations with the countries of the capitalist camp on the basis of equality, mutual benefit, and strict observance of their obligations, proceeding from the fact that differences in socioeconomic systems should not be an obstacle to the development of mutually beneficial trade and other economic relations. The policy of U.S. imperialism, aimed at disrupting the trade of the capitalist countries with the Soviet Union and the people's democracies, is more and more exposed by life and is failing. The aggressive forces of imperialism are unable to disrupt or stop the economic upswing of the peoples who have broken forever with the capitalist system. Not only among the broad masses of the working people, but also in the business circles of the capitalist countries, especially under the influence of the increasing difficulties of sales on the world capitalist market, there is a growing desire to normalise and expand trade with the countries of the socialist camp.

The countries of the socialist camp use trade relations with the capitalist countries as one of the factors for the further development of their economies and the raising of the standard of living of the population. The development of trade relations between the states of both camps is of even greater importance for the countries of the capitalist system, especially in connection with the progressive contraction of the world capitalist market. The establishment of normal international economic relations between the countries of both camps serves the cause of peace, the easing of international tension and the thwarting of the plans of the instigators of a new war.

### **The Nature of Economic Relations Between the Countries of the Socialist Camp.**

The countries of the socialist camp differ in their level of economic and technical development. However, the relations between these countries are determined by the most important and decisive fact that they are all following the path of socialism and communism. In the economies of the people's democracies, socialist forms of economy occupy a *leading place*. As a consequence, the economic laws of capitalism, which express the exploitation of man by man, competition and the anarchy of production, have lost their force in the sphere of relations between the countries of the socialist camp. In this camp, relations between states are based on the economic laws of socialism and reflect the requirements of these laws. Economic cooperation among the countries of the socialist camp represents a *new type of international relations*, the likes of which history has never known.

In accordance with the *basic economic law of socialism*, economic relations between the countries



participating in the world democratic market are subordinated to the common goal of satisfying the ever-growing needs of the working people to the fullest extent possible through the continuous growth and improvement of socialist production on the basis of higher technology. As a result, there is not and cannot be economic expansion, unequal exchange, competition, exploitation and enslavement of weaker states by stronger ones in the socialist camp. Relations between the countries of this camp are characterised by comradely cooperation and mutual assistance.

The most important feature of the socialist camp is the planned nature of all the economic ties of the countries participating in it. In accordance with the *law of planned and proportionate development* of the national economy, economic cooperation among the countries of the socialist camp is developing on the basis of the mutual coordination of national economic plans. Plans for economic cooperation are taken into account in the state plans for the development of the national economy of the Soviet Union and the countries of people's democracy. This is the great advantage of the world democratic market as compared with the world capitalist market, which is subject to more frequent and deeper crises as a result of the growing impoverishment of the masses, the narrowing of the sphere of application of the forces of the main capitalist countries to world resources, and the ever-deepening contradictions of the modern capitalist economy. Relying on their own resources and on fraternal mutual assistance, the countries of the socialist camp ensure the continuous upswing of the national economy and the systematic improvement of the material well-being of the toiling masses. This, in turn, creates a solid basis for the steady expansion of the world democratic market and ensures that this market does not have the difficulties inherent in the world capitalist market.

The planned nature of the development of the economies of the countries of the socialist camp makes it possible to make the most expedient use of the available resources for the purpose of the most rapid development of the productive forces, the steady growth of the economy, and the well-being of the people. The countries of the socialist camp are interested in the all-round development of the productive forces of each of them, since such development strengthens the economic power of the camp as a whole. This creates extremely favourable conditions for the expansion and strengthening of economic cooperation between the states of this camp.

The development and strengthening of economic cooperation among the countries of the socialist camp is taking place on the basis of a new, socialist international division of labour, which is fundamentally different from the *international division of labour* in the capitalist system of the world economy.

In contrast to capitalism, the division of labour among the states of the socialist camp is formed not by coercion and violence, but by cooperation of equal states.

The division of labour among the countries of the socialist camp is based on the capabilities of each country and leads to a general upsurge. Each country allocates part of its resources to meet the needs of other countries and in turn relies on their friendly assistance. The rational division of labour among the countries of the socialist camp contributes to the all-round development of their productive forces, enabling each country to mobilise not only its own resources but also those of other fraternal countries for this purpose in a planned manner.

At the same time, the socialist division of labour allows individual countries to avoid parallelism in the development of the most important branches of industry and agriculture. By complementing each other as equal economic units in the general system of the socialist camp, the countries of this

camp are able to accelerate the pace of their economic development by saving enormous resources and forces. Each country can concentrate its efforts and resources on the development of those industries for which it has more favourable natural and economic conditions, production experience and personnel. At the same time, individual countries may refuse to master the production of those types of products, the demand for which can be met by supplies from other countries. In this way, a broad *specialisation* and *co-operation* of production in industry and the most expedient division of labour in the production of foodstuffs and raw materials are achieved.

Such specialisation and cooperation are carried out through the interconnection of capital construction plans and the conclusion of long-term multilateral and bilateral agreements on mutual assistance and cooperation. Specialisation and cooperation are especially important in the most important branches of heavy industry, such as mechanical engineering and metallurgy, where this opens up wide opportunities for a significant reduction in the cost of production. In agriculture, the establishment of a proper division of labour creates favourable conditions for the rapid growth of production in all its branches by increasing labour productivity and rational use of agricultural land.

The growth of the socialist division of labour contributes to the further development of the world democratic market.

The experience of economic cooperation among the countries of the socialist camp fully confirms the thesis of Marxism-Leninism that the establishment of equal economic relations between the highly developed and underdeveloped countries is possible only after the liberation of these countries from the yoke of imperialism.

In the relations between the countries of the socialist camp, for the first time in history, the contradiction between the objectively progressive tendency toward economic rapprochement, the unification of individual countries, and

the imperialist methods of this unification, which is carried out by means of financial enslavement and colonial enslavement of economically weak peoples by the capitalistically developed countries, has been eliminated.

Economic relations between the developed and backward countries in the capitalist camp are based on the principles of domination and subordination and reflect, first of all, the correlation of forces between the partners. The imperialist states, by siphoning off valuable raw materials from the underdeveloped countries, colonies and semi-colonies, perpetuate their backwardness and dependence as agrarian and raw material appendages to the economy of the metropolises.

Economic relations in the socialist camp are characterised by all-round mutual assistance and the bringing of the underdeveloped countries up to the level of advanced countries. As a result of the socialist international division of labour, the elimination of the economic backwardness and one-sidedness of economic development inherited by the people's democracies from capitalism is facilitated, favourable conditions are created for their industrialisation, their economic self-sufficiency and independence from the capitalist world are strengthened, their economies are growing more rapidly, and the well-being of the population is increasing.

In the socialist camp, relations between countries are the embodiment of *the principles of proletarian internationalism* - the international solidarity of the working people. These relations are based on selfless mutual support and respect for their state sovereignty and national interests. Fraternal friendship and close cooperation among the countries of the socialist camp are the most important source of the invincible power of this camp and the decisive condition for successful socialist construction in these countries.

## **The Main Forms of Economic Cooperation of the Countries of the Socialist Camp.**

The main forms of cooperation among the countries of the socialist camp are foreign trade, the granting of credits, scientific and technical assistance, and cooperation in the training of personnel.

Among these forms of economic cooperation, *foreign trade* is of primary importance.

The foreign trade of the countries of the world democratic market is based on completely different principles than foreign trade on the world capitalist market. In the capitalist world, foreign trade, concentrated in the hands of the monopolies, is subordinated to the interests of extracting maximum profits by means of unequal exchange and other methods of plundering and enslaving backward and dependent countries. The foreign trade of the countries of the socialist camp is a state monopoly (the USSR and the European people's democracies) or is carried out under strict state control (the People's Republic of China) and serves the interests of the general upswing, the acceleration of the economic development of the countries of this camp, and the raising of the standard of living of their populations.

Each of the countries participating in the world democratic market, realizing an ever-increasing share of the products of its national economy with the help of foreign trade, receives in return more and more material values: industrial equipment, raw materials, and other goods necessary for its economic development. Each country imports the goods it needs and exports the goods that other countries need, and none of the participants in the trade turnover imposes on the partner the goods it does not need, as is often the case in the capitalist market.

The prices of commodities on the world democratic market are set by voluntary agreement of equal parties, on the basis of full respect for mutual interests, which excludes

any discrimination and non-equivalence of exchange. These prices are stable: they are fixed for a period of at least one year, and for most commodities prices remain unchanged for a number of years.

The continuous growth of foreign trade between the countries of the socialist camp is the clearest evidence of the development and strengthening of the world democratic market.

In 1938, the USSR's trade with Poland, Czechoslovakia, Hungary, Romania, Bulgaria, and Albania accounted for only 1.5 per cent of the USSR's foreign trade turnover, and in 1953 trade with these countries accounted for 40 per cent of the USSR's foreign trade turnover. In 1938, the USSR's trade with China accounted for 4% of the USSR's foreign trade turnover, and in 1953 it was 18%.

In 1952, Poland's foreign trade turnover increased six-fold compared to 6, Czechoslovakia's by 1946.3 times, Hungary's by 5 times, Romania's by 13.14 times, and Bulgaria's by almost three times. In 5, the countries of the socialist camp accounted for about 3% of the total trade turnover of Poland, about 17% of Czechoslovakia, 7% of Romania, about 1947% of Hungary, 1953% of Bulgaria, almost 70% of Albania, and more than 80% of the German Democratic Republic.

The Soviet Union, which has a highly developed heavy industry, especially machine-building, supplies large quantities of equipment of all kinds to the people's democracies. Over the past five years (1948-1953), the supply of industrial equipment and machinery from the USSR to the countries of people's democracies has increased more than tenfold.

Machinery, equipment, and other means of production also occupy a prominent place in the export of other countries of the socialist camp. Czechoslovakia exports products of the machine-building, metallurgical and chemical industries, coke, and footwear. Poland supplies coal, coke, rolled ferrous metals, zinc, railway rolling stock, and food products. Hungary exports metal-cutting machines, turbines, transformers, lifting and conveying equipment, aluminium, bauxite, and food. In the export of Romania, oil and oil products, timber occupy a

large place. Bulgaria exports tobacco, lead and zinc concentrates, cement, and wine. Albania supplies mining products, oil, and bitumen. The German Democratic Republic exports products of the engineering, electrical and chemical industries, as well as precision mechanics and optics. The People's Republic of China exports industrial and agricultural raw materials and food products.

An important form of economic cooperation between the countries of the socialist camp is the *granting of credits*. In the capitalist world, credit relations serve as one of the most effective instruments for the economic robbery of the underdeveloped countries by the monopolies of the imperialist powers. The granting of credit is usually conditional on the obligation to spend the amounts borrowed on the purchase of goods from the creditor country. In this way the imperialists sell their stale goods, primarily consumer goods, to the debtor countries at monopolistically high prices. In the socialist camp, the granting of credit is not associated with any privileges for the creditor. They are granted primarily for the purchase of equipment and machinery, as well as for the purchase of those goods which are not produced in a given country, but are necessary for its national economy. The States that have received the loans repay the loans and the interest accrued on them in the usual range of goods typical of the country's exports and at fair prices.

Thus, under the loan agreement concluded on February 14, 1950, the Soviet Union granted the People's Republic of China a loan of 300 million US dollars, to be used for 5 years, starting from January 1, 1950, in equal annual instalments to pay for the supply of equipment and materials from the USSR, including equipment for power plants, metallurgical and machine-building plants, equipment for the extraction of coal and ores. railway and other transport equipment, rails and other materials necessary for the restoration and development of the national economy of China. This loan was provided at 1%

per annum, and the repayment of the loan will be made by China in equal annual instalments over 10 years.

On the basis of long-term credit agreements, the Soviet Union supplies large quantities of machinery and equipment to Bulgaria, Albania, and other countries. Thanks to Soviet loans, Albania received complete equipment for entire factories and plants: for a textile plant, a sugar and cement plant, an oil refinery and other enterprises. Bulgaria received complete equipment for the Stalin Chemical Combine, for the V. Chervenkov Combined Heat and Power Plant, for the metallurgical and lead-zinc plant and a number of other enterprises.

Scientific and technical assistance is of great importance for the economic development of the countries of the socialist camp. This assistance is provided in various forms, primarily in the form of the transfer of patents, licenses and technological documentation for the latest inventions and technical improvements, mutual exchange of production and technical experience, joint development and use of natural resources, joint construction of industrial enterprises, *and mutual assistance* Specialists.

The Soviet Union is helping the people's democracies to build the largest modern enterprises and entire branches of industry. By way of technical assistance, the Soviet Union provides the latest and most advanced equipment to industrial enterprises and cultural institutions built according to Soviet designs. The Soviet Union transfers to the other countries of the socialist camp scientific inventions, patents, and licenses for the latest industrial and technical achievements, and only the actual costs of designing and producing scientific documentation are paid. Soviet specialists - engineers and technicians - help the countries of people's democracies to carry out prospecting work, develop mineral deposits, and carry out complex installation and construction work on a number of large new buildings. The countries of people's democracies render each other



extensive scientific and technical assistance on the same basis of disinterested cooperation.

Among the largest industrial enterprises created and being created in the European countries of popular democracy with the help of the Soviet Union are: the automobile plant in Warsaw, the Lenin Metallurgical Plant in Nova Guta in Poland, the Gottwald Metallurgical plant in Czechoslovakia, the Stalinvaros plant in Hungary, the Lenin hydroelectric power plant in Romania, the Stalin Chemical plant in Poland. Bulgaria, the Lenin Hydroelectric power Plant in Albania, and a number of other industrial plants, heavy engineering enterprises, and power plants.

Extensive technical assistance from the Soviet Union was one of the most important conditions that opened up for the countries of people's democracies the possibility of creating in a short time new industries and entire branches of industry, which these countries did not have and could not have had under other conditions. For example, Romania not only expanded its oil industry, but also created its own petroleum engineering industry, which produced almost all the necessary equipment for oil production and a significant part of the complex equipment for its purification. This is the only case in the world when a small country with oil wealth has managed to create oil engineering as well. The small oil-possessing countries of the capitalist world, mercilessly exploited by the American and British monopolies, cannot even dream of this.

Close cooperation between the countries of popular democracy greatly facilitates the creation of new industries in these countries. Thus, under the Czechoslovak-Hungarian treaty, Czechoslovakia was able to create an aluminium industry based on Hungarian bauxite, Poland helped Czechoslovakia organise the production of carbide and build zinc smelting plants. In Nowe Dvory (Poland), Poland and Czechoslovakia jointly built a power plant that supplies electricity to both countries. By providing Czechoslovakia with a long-term lease of part of the port of Szczecin, Poland opened up access to the sea.

Scientific and technical cooperation among the countries of the socialist camp is closely joined *by cooperation in the training of cadres*. Large contingents of young people from fraternal countries are systematically trained in the higher educational institutions of the Soviet Union, Czechoslovakia, and Poland. Young specialists from these countries undergo practical training at enterprises and scientific institutions.

The successes of economic cooperation among the countries of the socialist camp and the rapid growth of the world democratic market are a clear indicator of the superiority of socialism over capitalism and open up the prospect of peaceful economic and cultural development of all countries and peoples to mankind.

## BRIEF CONCLUSIONS

1. Economic relations between the countries of the socialist camp *represent an entirely new, socialist type of international relations*. Whereas in the world of capitalism economic relations between countries are built on the principles of domination of the strong countries over the weak, the struggle of all against all, anarchy and lack of planning, economic relations in the camp of socialism are built on the principles of complete equality of the parties and mutual benefit, respect for the state sovereignty of all peoples, large and small, fraternal mutual assistance, planned and organised all economic relations. Relations between the countries of the socialist camp are the embodiment of the principles of proletarian internationalism - the international solidarity of the working people.

2. Economic cooperation among the countries of the socialist camp is based on the economic laws of socialism. In accordance with the basic economic law of socialism and the law of the planned and proportional development of the

*national economy, economic relations between the countries of the socialist camp are subordinated to the common goal of satisfying the constantly growing needs of society as a whole by means of a continuous increase in production and are developing in a planned manner, on the basis of equivalence of exchange. All this ensures the steady expansion of the capacity of the global democratic market and its crisis-free development. The planned nature of the economic development of the countries of the socialist camp makes it possible to make the most expedient use of the available resources. Economic cooperation between the countries of the socialist camp is based on the new, socialist international division of labour. The socialist division of labour among the states is carried out through the close coordination of their national economic plans, especially the plans for capital construction, through broad specialisation and cooperation in the most important branches of industry, as well as in the production of basic foodstuffs and raw materials.*

*3. The main place among the various forms of economic cooperation of the countries of the socialist camp belongs to foreign trade, which is growing rapidly from year to year. Such forms of economic cooperation as the provision of credits and loans, scientific and technical assistance, and cooperation in personnel training are of great importance. All these forms of economic cooperation among the countries of the socialist camp are developing for the purpose of the most rapid development of the productive forces and the steady rise of the economy and the well-being of the peoples.*

## CONCLUSION

Marxist-Leninist political economy has developed for more than a century. Like Marxism-Leninism in general, Marxist-Leninist political economy has a creative and effective character. Profoundly alien to dogmatism, it develops in the closest and most indissoluble connection with the practice of the working-class movement, with the practice of the struggle of the working class and all working people for socialism and communism, and is supplemented by new theoretical propositions on the basis of the generalisation of new historical experience.

Marx and Engels gave a scientific analysis of the foundations of capitalism as a historically transient mode of production and discovered the economic laws of its origin, development, and destruction. In his works *The Communist Manifesto*, *Capital*, *Critique of the Gotha Programme*, *Anti-Dühring*, and others, Marx and Engels revealed the historical role of the proletariat as the gravedigger of capitalism and the builder of socialist society. They created the theory of proletarian revolution, substantiated the economic necessity of the transition period from capitalism to socialism as a special historical period of the revolutionary transformation of capitalist society into socialist society, and described in general terms the two phases of the development of communist society.

The most important doctrine in Marxism is the doctrine of the dictatorship of the proletariat as a new type of state that plays a decisive role in the revolutionary transformation of society. Marx and Engels outlined a program of the most important measures to be carried out by the proletarian dictatorship: the expropriation of the expropriators, the replacement of private ownership of the means of production by public ownership, the abolition of exploitation and the exploiting classes, and the rapid growth of the productive forces of society.

Marx and Engels foresaw that in socialist society the anarchy of production would be replaced by the planned development of the social economy and that the principle of distribution according to labour would be realised. Only with the further rapid development of the productive forces, with the growth of the abundance of products, with the abolition of the essential differences between town and country, between mental and physical labour, with the transformation of labour into man's first vital need, will the transition from the lower phase of communism to the higher phase prevail, in which the principle prevails: "From each according to his ability, to each according to his needs."

In developing Marxist political economy, Lenin enriched it with a scientific study of the monopolistic stage of capitalism—imperialism and the general crisis. Capitalism. The most important conclusion of this study was a new, complete theory of the socialist revolution, the theory of the possibility of the victory of socialism in one country.

Guided by Marx and Engels' thesis on the expropriation of the expropriators as the primary task of the proletarian revolution, Lenin, in his works *On the Tasks of the Proletariat in the Present Revolution*, *The Impending Catastrophe and How to Combat It*, *Will the Bolsheviks Retain State Power?*, and others, gave a scientific justification for the program of nationalisation of the land, large-scale industry, banks, and foreign trade, as the most important measures of the proletarian dictatorship aimed at seizing the commanding heights of the economy.

On the basis of a scientific generalisation of the historical experience of the Great October Socialist Revolution and the practice of socialist construction in the USSR, Lenin enriched Marxism in general and Marxist political economy in particular with a profound analysis of the laws of the socialist transformation of society. In his works "The State and Revolution", "The Proletarian Revolution and the Renegade Kautsky", "The Infantile Disease of 'Leftism' in

Communism”, “Economics and Politics in the Epoch of the Dictatorship of the Proletariat” and others, a comprehensive elaboration of the question of the dictatorship of the proletariat is given. Lenin defined the dictatorship of the proletariat as a special form of class alliance between the proletariat and the main masses of the peasantry under the leadership of the proletariat and as the highest type of proletarian democracy, expressing the interests of the toiling masses. He revealed the content and historical mission of the dictatorship of the proletariat, defining its three main aspects: (a) the suppression of the exploiters, (b) the leadership of the working masses, and (c) the leadership of the working masses. building a socialist society.

Lenin elaborated the question of the nature and role of social classes and the class struggle in the period of transition from capitalism to socialism, giving a scientific analysis of the economy and the class structure of society in this period. He comprehensively elucidated the question of the alliance of the working class with the main mass of the peasantry, with the leading role of the working class in this alliance. Lenin worked out ways to abolish the exploiting classes and to abolish the exploitation of man by man during the dictatorship of the working class, showing that the construction of socialism was accompanied by a sharp class struggle against the exploiting classes.

In his works “The Immediate Tasks of Soviet Power,” “How to Organise Competition?,” “The Great Initiative,” “On the Unified Economic Plan,” “On the Food Tax,” “On the Co-operatives,” and in other works, Lenin gave the theoretical foundations and outlined the concrete paths of economic policy in the period of transition from capitalism to socialism. Lenin is the creator of a concrete plan for the construction of socialism in the U.S.S.R., which has world-historical significance. The most important parts of this plan are the socialist industrialisation of the country and the collectivisation of agriculture. Lenin showed that in order to

lay the foundations of a socialist economy and to ensure the economic independence of the Soviet country from world imperialism, it was necessary in the shortest possible time in history to overcome Russia's age-old backwardness and to create large-scale industry. Lenin put forward a cooperative plan for the gradual drawing of the peasantry into the channel of socialist construction, first on the basis of trade and then on the basis of the industrial bond between industry and agriculture.

On the basis of a generalisation of the practice of socialist construction, Lenin elaborated the basic principles of the basic economic law of socialism, the law of the planned development of the national economy, and others. Lenin defined the basic principles of socialist economic management, revealed the significance of the principle of material interest in the development of socialist production, and creatively developed the Marxist thesis on the distribution of labour under socialism, on wages, and so forth. Lenin scientifically foresaw that the socialist revolution, by effecting the great replacement of forced labour for exploiters by free labour for itself, for the whole of society, would engender a revolutionary enthusiasm unprecedented in history among the masses and for the first time would create the possibility of applying competition on a large scale. He worked out the problems of the strictest, nationwide accounting and control over the production and distribution of products, the creation of a new, socialist discipline of labour, and economic calculation.

In Lenin's works, the basic theses of Marxism on the ways of building a communist society, on the role of electrification and the growth of labour productivity in the creation of the material and production base of communism, and on the conditions for the transition to the communist principle of distribution according to needs were further developed.

Relying on the works of Marx, Engels, and Lenin, the founders of genuinely scientific political economy, Stalin

advanced and developed a number of new propositions of economics. Stalin's works provide an analysis of modern monopoly capitalism and paint a picture of the general crisis of the capitalist system, which is a comprehensive crisis of capitalism that embraces both its economy and its politics.

On the basis of a generalisation of the experience of socialist construction in the USSR, Stalin worked out a number of problems of the political economy of socialism. Proceeding from Lenin's instructions, Stalin, in his reports at party congresses and conferences, in his works *Problems of Leninism*, *Economic Problems of Socialism in the USSR*, and others, substantiated the ways and methods of carrying out the socialist industrialisation of the country and the collectivisation of agriculture. Basing himself on the basic principles given in the works of Marx, Engels, and Lenin, Stalin formulated the basic economic law of socialism and the law of the planned, proportional development of the national economy.

In Stalin's writings, Lenin's theses on the methods of socialist economy, on the necessity of using the law of value and money, on economic calculation, on the principle of workers' material interest in the results of their labour, and on the superiority of the socialist economic system over the capitalist system found their further elaboration.

Stalin developed and concretised Marxist-Leninist theses on the transition from socialism to communism: on the state under communism, on the elimination of essential differences between town and country, between mental and physical labour.

Marxist-Leninist political economy is further developed on the basis of a generalisation of the practice of communist construction in the USSR and the construction of socialism in the people's democracies. It is enriched by the new experience of the revolutionary struggle of the working class and broad strata of the working people against oppression and exploitation in the capitalist countries, as well as by the



experience of the national liberation struggle of the colonial peoples. The development of the economic theory of Marxism-Leninism finds its most striking expression in the historical decisions of the Communist Party of the Soviet Union and the fraternal Communist and Workers' Parties, in the writings of the leaders of these parties, which enrich it with new conclusions and propositions that arise on the basis of the changing conditions of life in society.

Marxist-Leninist political economy, as the most important component of Marxism-Leninism, is a powerful ideological weapon of the proletariat in its struggle against capitalism and for socialism. It is a genuinely scientific political economy, since it expresses the interests of the working class and all the progressive forces of mankind who are interested in an objective study of the laws of economic development of society, which inevitably lead to the death of capitalism and the victory of communism.

Modern bourgeois political economy, expressing the interests of the monopoly bourgeoisie, which strives to perpetuate the obsolete capitalist system, does everything to conceal and gloss over the contradictions of the capitalist system, which are leading it to destruction. Petty-bourgeois political economy, by embellishing capitalism and sowing illusions about the possibility of its improvement by means of reforms, is trying to divert the working class, the broad working masses, from the struggle for the abolition of the capitalist system, for socialism. Bourgeois and petty-bourgeois political economy has as its main task the preservation of the capitalist system and the struggle against Marxist-Leninist political economy.

Marxist-Leninist political economy exposes the anti-scientific, reactionary nature of bourgeois and petty-bourgeois political economy. It equips the working class with knowledge of the economic laws of the development of society and enables the revolutionary Marxist-Leninist parties to base their policies on scientific foundations.

What are the main conclusions to be drawn from the study of political economy? What does political economy teach?

1. Political economy teaches, first of all, that the economic development of human society is a natural process. The emergence and development of each mode of production, the replacement of one mode of production by another, takes place not at the will of men, but by virtue of the operation of objective economic laws. Political economy opens up the possibility of knowing the objective laws of economic development and using them in the interests of society.

Political economy, revealing the laws of social production and the distribution of material goods at various stages of the development of society, provides the key to understanding the entire process of development of human society as a single process that is lawful in all its versatility and contradictions. The laws of political economy, like the laws of any other science, are a reflection in people's minds of objective laws that exist outside of us. At the same time, political economy provides a deep and comprehensive justification of the most important Marxist thesis that the main force in the development of society, the true creator of history, is the people, the working masses. It shows the mobilizing, organizing, and transforming role of advanced ideas generated by the urgent needs for the development of the material life of society.

Human society develops from the lower forms of its existence to the higher. Each of the modes of production represents a definite stage in the forward movement of society, in the development of its productive forces and relations of production. Up to the socialist revolution, the development of society takes place in such a way that the production relations of the new socio-economic system, which replaces the old, obsolete system, contribute to the development of the productive forces for a certain period of

time, and later turn into their fetters. Then one economic system of society is replaced by another, higher economic system. In a society divided into antagonistic classes, this change is effected through the class struggle, through the social revolution, which overthrows the power of the obsolete ruling class and asserts the power of the new, advanced class.

Political economy, by making a comprehensive study of the emergence, development, and decline of socioeconomic formations based on private ownership of the means of production, reveals the economic roots of the class struggle. It shows that the working masses are the creators of wealth, and that the fruits of their labour are appropriated by the exploiting classes. This means that the class struggle is conditioned by the fundamental material interests of certain classes, by the laws of economic development of a given mode of production.

Each new social system based on private ownership of the means of production - slave-holding system, feudalism, capitalism - established the exploiters in power, changing only the forms of exploitation and oppression of the working people. The whole course of the economic development of society testifies to the fact that capitalism is the last social system based on the exploitation of man by man. Political economy shows that capitalism in its monopolistic stage has long since been transformed into a reactionary system, retarding the further advance of society. The moribund capitalism is being replaced by a new social system, socialism, which means the abolition of the exploiting classes, the abolition of the exploitation of man by man.

The history of the development of human society fully confirms the correctness of this scientific conclusion of Marxist-Leninist political economy. Socialist society was built in the Soviet Union. With the victory of socialism in the USSR, the false theory of the eternity of private property and the capitalist system was completely exposed. The successful

construction of socialism is under way in the European countries of people's democracy. The great revolutionary transformations in the Chinese economy created the prerequisites for the gradual construction of socialism in this largest country in the East. The Soviet Union is successfully carrying out a gradual transition from socialism to communism. Communist society, the first stage of which is socialism, is the ultimate goal of the struggle of the working people of all countries.

Political economy gives the working class and all working people confidence in the victory of communism, showing that this victory is conditioned by the entire preceding course of historical development.

2. Political economy, on the basis of the experience of the U.S.S.R. and the people's democracies, teaches how the working people of the capitalist countries can break free from capitalist bondage. It shows that the oppression and impoverishment of the working people of the bourgeois countries do not depend on accidental causes, but are rooted in the capitalist economic system and are conditioned by the economic laws inherent in this system. Crises, unemployment, and the miserable condition of the masses of the people cannot disappear without changing the very basis of the relations of production, i.e., without transferring the means of production from the private property of the capitalists and landlords to the social ownership of the working people.

By revealing the opposition between the foundations of bourgeois and socialist economics, the irreconcilability of the class interests of the bourgeoisie, on the one hand, of the proletariat and all the working people, and, on the other hand, political economy shows the impossibility of capitalism peacefully "growing into" socialism. No attempt to reform, to "improve" capitalism can put an end to the system of wage slavery. The Great October Socialist Revolution proved irrefutably that only by abolishing the very foundations of

capitalism can the working class and the toiling peasantry get rid of the bondage of the exploiters and take the path of a free, prosperous and cultured life. Historical experience fully confirms the correctness of the Marxist thesis that the socialist revolution is inevitable, that the replacement of capitalism by socialism is impossible without the establishment of the power of the working people, without the dictatorship of the proletariat, without the alliance of the working class with the peasantry. In order to achieve this goal, it is necessary to have a Communist Party capable of preparing the proletariat and the broad masses of the working people for a determined struggle against the bourgeoisie and organising the victory of the socialist revolution.

Political economy shows that the enslavement and plunder of the colonial peoples by the metropolises is determined by the very essence of imperialism, which is closely connected with the feudal-landlord and bourgeois-comprador circles of the colonial countries. The peoples of the colonial and semi-colonial countries can get rid of slavery, poverty and backwardness only by freeing themselves from the yoke of imperialism and its local vassals, by destroying the vestiges of feudalism and by carrying out radical democratic reforms. The colonial countries, having broken with the system of imperialism and secured their independence, can, with the economic support of the U.S.S.R. and other countries in the socialist camp, bypass the tortuous path of capitalist development and gradually create the prerequisites for the transition to socialist construction. The experience of the revolutionary struggle and the victory of the Chinese people has confirmed in practice this conclusion of Marxist-Leninist political economy and has proved that the liberation of the colonial countries from the yoke of imperialism leads them to the path of material and cultural flourishing.

The overthrow of the capitalist order in a particular bourgeois country and its replacement by a socialist order, the falling away from the system of imperialism of a colonial country and the realisation of democratic transformations in it, do not take place as a result of the “export of revolution”, which is an invention of the imperialists, but because of the deep internal needs of the economic development of these countries.

3. Political economy teaches how to transform the economy in the spirit of socialism. The transition to socialism cannot be carried out by arbitrarily chosen paths, but is a natural process. Political economy shows that in the period of transition from capitalism to socialism, by virtue of the operation of objective economic laws, the nationalisation of large-scale capitalist production, the socialist industrialisation of the country, and the collectivisation of peasant farms are carried out in a definite sequence. The construction of socialism is taking place in an irreconcilable struggle against the capitalist elements in town and country.

Political economy has exposed the false fabrications of bourgeois ideologists to the effect that the working class, once in power, is incapable of organising the economy. The historical experience of the USSR has shown what an inexhaustible creative force is generated by the power of the working people. For the first time in history, the working class, the working people of a vast country occupying one-sixth of the globe, threw off the yoke of exploitation and oppression, became masters of their country and created a socialist system that would ensure a steady rise in the productive forces, social wealth, material well-being and culture of the masses of the people. This proves that the people can successfully dispense with the exploiters, that the working class, the toiling masses, are capable not only of destroying the old, bourgeois system of economy, but also of building a new, immeasurably higher socialist system of

economy. The practice of socialist construction in the people's democracies convincingly testifies to the same.

Political economy provides an economic justification for the need for the leading role of the working class in socialist construction, for a firm alliance between the working class and the peasantry, with the aim of building socialism and abolishing the exploitation of man by man. The alliance of the working class and the peasantry is the indestructible basis of the social system of all the countries of the socialist camp. On the basis of the alliance between the working class and the peasantry, the centuries-old peasant question is being solved, and the transition from small individual peasant farming to large-scale collective farming, which will save the peasantry from ruin and poverty, is being carried out. The victory of the collective-farm system in the U.S.S.R. in fact refuted the fabrications of the bourgeoisie to the effect that the peasantry was incapable of embarking on the path of socialism.

Political economy generalises the historical experience of building socialism in the USSR. It shows how a previously impoverished and weak country, such as pre-revolutionary Russia, turned into a rich and powerful country, such as the Soviet Union. From the treasury of Soviet experience the countries of people's democracies draw knowledge of the tried and tested paths of socialist construction, of the laws of the class struggle in the transition period, of the knowledge of how the working class can achieve an indestructible friendship and a firm alliance with the peasantry, how to strengthen the economic bond between town and country, how to achieve victory over the exploiting classes and how to build a socialist society.

The use of the Soviet experience requires careful consideration of the specific features of the economy and class relations in each country, determined by the totality of the historical conditions of its development. In the people's democracies, the building of socialism is taking place under

more favourable conditions than it did in the Soviet Union, because at the present time there is a powerful socialist camp headed by the Soviet Union and a wealth of experience in socialist construction has been accumulated. The decisive condition for the victory of socialism and communism in all countries that have fallen away from the capitalist system is the further strengthening of the power of the socialist camp and the further development of economic, political and cultural cooperation among the countries belonging to this camp.

4. Political economy teaches that the practical work of socialist construction can be successful only if it is based on the economic laws of the development of society.

Knowledge of economic laws makes it possible to penetrate into the depths, to the essence of economic processes, to identify progressive tendencies of development when they are still in embryo, to scientifically foresee the course of economic development and to direct it in accordance with the tasks of building communism. Political economy is arming cadres for the struggle for the victory of the new, the advanced over the old, the obsolete. Scientific knowledge of the economic laws studied by political economy forms the basis of the economic policy of the Communist and Workers' Parties in power in the countries of the socialist camp. Guided by Marxist-Leninist theory and knowledge of objective economic laws, these parties work out and carry out a scientifically grounded and practically tested policy that reflects the needs of the development of the material life of society and the fundamental interests of the people, and acts as the inspirers and organisers of the revolutionary energy and creativity of the masses.

In elucidating the operation of the basic economic law of socialism, political economy directs the cadres to organise their work in accordance with the goal of socialist production—the maximum satisfaction of the material and cultural needs of the people. Political economy reveals the



conditions for the continuous growth and improvement of production on the basis of higher technology.

Political economy shows that self-flow is profoundly alien to the economic system of socialism, that the construction of a communist society can be carried out only in the order of planned management of the economy on the basis of the law of planned development of the national economy, in accordance with the requirements of the basic economic law of socialism. The study of the law of planned development of the national economy helps to make reasonable use of material, financial, and labour resources, and to correctly combine all elements of production.

Political economy shows that the main and decisive condition for the further upswing and all-round development of the national economy is the all-round increase in the productivity of labour in all branches—in industry, transport, and agriculture. The continuous growth of labour productivity is the main condition for solving the problem of satisfying the needs of the people as much as possible and for successful economic competition with the most developed capitalist countries.

Political economy reveals the enormous importance for socialist construction of the interest of the masses in the steady rise of production resulting from socialist relations of production. It shows the role of socialist emulation as a powerful driving force in the economic development of socialist society. In revealing the role and significance of the law of distribution of labour for the development of the socialist economy, political economy directs the cadres toward the consistent implementation of differentiated wages in all branches of the national economy in direct proportion to their results and toward the elimination of elements of equalisation.

Political economy elucidates the significance of the skilful use of the law of value and the economic instruments connected with it for socialist construction. An understanding

of the operation of the law of value under socialism serves as an important means for the cadres to improve the methods of production, reduce the cost of production, strengthen economic calculation, and raise the profitability of enterprises, develop trade, and improve the financial system. Political economy reveals the enormous possibilities available in the socialist planned economy for the implementation of a strict regime of austerity and the increase of socialist accumulation.

The Soviet Union and the people's democracies are characterised by a steady increase in the creative activity of the masses in economic and cultural construction. That is why the masses' knowledge of the laws of economic development and the principles of socialist economy is becoming increasingly important. By equipping the cadres with knowledge of economic laws, political economy makes it possible to use and apply these laws more and more successfully in practice, and thereby to increase the effectiveness of the entire work of building socialism and communism.

The political economy of socialism helps the economic managers and the broad masses of the working people to find and utilise the hidden reserves hidden in the depths of production and to prevent the alignment of "bottlenecks." On the other hand, it teaches us to take into account the real economic conditions in a comprehensive manner and warns against acting on the principle of "we can do anything" or "we don't care about anything."

By revealing the interconnection of economic processes, political economy enables each worker to understand the significance of his activity for the development of the entire socialist system of the national economy. It teaches the understanding that under socialism the interests of the whole people, the general interests of the state are above all.

5. Political economy shows that socialism is the most progressive mode of production, which has decisive

advantages over capitalism. This is clearly expressed in the contrast between the basic economic laws of socialism and capitalism, which determine two different lines of development.

Whereas in capitalist countries production is subject to the predatory law of maximizing profit, which condemns the working people to ruin and poverty, unemployment and hunger, and to bloody wars, in socialist society production is subordinated to the interests of man and to the satisfaction of his growing needs.

While the economies of the capitalist countries are characterised by the fact that the productive forces are marking time, parasitism and the decay of capitalism are intensifying, and devastating economic crises are accompanied by the plundering of material values, the economies of the Soviet Union and the countries of people's democracies are characterised by a steady rise in production and technical progress, which ensures the constant improvement of production on the basis of higher technology.

In contrast to capitalism, where the economy, under the influence of its militarisation, develops one-sidedly, mainly along the lines of industries working for war, which entails an increase in taxes and an increase in prices for consumer goods, socialism is characterised by the development of a peaceful economy, the widespread development of civilian industry, which is accompanied by a systematic decrease in prices for personal consumption goods, and an increase in the real incomes of the population.

Whereas capitalism is characterised by competition between countries and the enslavement of one country by another, socialism is characterised by friendly economic and cultural cooperation among the countries that make up the socialist camp for the purpose of the general economic upsurge of these countries and the flourishing of their culture. The new world democratic market of the socialist

camp is expanding more and more, which is one of the important factors in the prosperity of the socialist economy.

In peaceful competition with capitalism, the socialist system of economy is every year more and more clearly proving its superiority over the capitalist system of economy. At the same time, the capitalist economic system, torn apart by internal contradictions, is becoming weaker and more unstable every year.

The majestic prospect of the progressive development of mankind is a classless communist society. Political economy reveals the economic conditions of the transition to communism by generalizing the practice of communist construction in the USSR. It shows that the movement of modern society towards communism is based on the objective laws of social development. Communism arises as a result of the conscious creativity of the vast masses of the working people, led by the Communist Party, armed with the theory of Marxism-Leninism. The Soviet Union has everything necessary to build a communist society. There are no forces in the world that could stop the forward movement of Soviet society on the road to communism. The enormous growth of the forces of democracy and socialism, the progressive decline of the capitalist system of world economy, the sharp sharpening of the class contradictions between the imperialist bourgeoisie on the one hand and the working class and the working people on the other, the growing sweep of the national liberation movement in the colonies, the powerful movement of the masses of the people and all the progressive forces of modern mankind for peace, against imperialist reaction and the preparation of a new war—all this is indisputable Proof that in our age all roads lead to communism.