

**THE NEW
ECONOMICS
E. PREOBRAZHENSKY**

Translated by **BRIAN PEARCE**
with an introduction by **A. NOVE**

THE NEW ECONOMICS
Preobrazhensky -- Oxford

Oxford

Eugene Preobrazhensky, a foundation member of the Bolshevik Party, wrote *The New Economics* (1926) as a contribution to the problem of socialist industrialisation in a backward, largely peasant country. Suppressed by Stalin as "Trotskyist", and its author shot in the Great Purge of 1937, the book has long been recognised as the most important work to date by a Soviet economist, and relevant both to the economic problems of the Soviet Union (and China) today and to those of some of the newly-independent countries of Asia and Africa which are trying to industrialise themselves in the shortest possible time but without social injustice.

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BRIAN PEARCE

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A. NOVE

CLARENDON PRESS · OXFORD

Oxford University Press, Ely House, London W.1

GLASGOW NEW YORK TORONTO MELBOURNE WELLINGTON
CAPE TOWN SALISBURY IBADAN NAIROBI LUSAKA ADDIS ABABA
BOMBAY CALCUTTA MADRAS KARACHI LAHORE DACCA
KUALA LUMPUR HONG KONG TOKYO

© *Oxford University Press 1965*

First published 1965
Reprinted 1966
Reprinted lithographically 1967

Printed in Great Britain by
Butler & Tanner Ltd, Frome and London

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INTRODUCTION

by
A. NOVE

EVGENY PREOBRAZHENSKY was born in 1886 and was shot in Stalin's great purge in 1937. He was one of the innumerable victims of the Stalin terror and by no means among the most prominent politically. A number of his more eminent colleagues have written books and articles which have not been translated; and one might ask why the work of a failed politician should be thought worthy of publication in English for the first time in 1965, nearly forty years after the appearance of the Russian edition. This would be a legitimate question. The answer lies in the importance and relevance of certain elements in Preobrazhensky's thought, for it remains applicable to certain frequently neglected problems in under-developed countries. It is this fact, as well as the light which his work sheds on the economic and political circumstances of the Soviet twenties, that justifies the belated publication of his work in this country. Its author had a mind of unusual quality, and the intellectual (though not the political) superiority of his arguments must have been a source of considerable embarrassment to those of his opponents who retained intellectual standards. It is perhaps typical of Stalin that he should have used a quite unanswerable counter-argument—the bullet in the back of the head.

To put the present book into perspective it is necessary to give some of the biographical and historical background, so that the reader can have some idea who is arguing with whom and why. This is no place to be writing a history of the Russian Revolution, and therefore the pages that follow should be supplemented by more detailed reading, if a full picture of the complex circumstances of the time is to be obtained. Readers can be confidently referred to the many volumes of E. H. Carr's *History of Soviet Russia*, Leonard Schapiro's *Communist Party of the Soviet Union*, and particularly Alexander Erlich's *The Soviet Industrialisation Debate, 1924-1928*. The last of these authors has also analysed the ideas of Preobrazhensky himself in an article 'Preobrazhensky and the

Economics of Soviet Industrialisation' (*Quarterly Journal of Economics*, February 1950).

First, a few words about Preobrazhensky's activities before the publication of the present book. A Bolshevik intellectual in his youth, joining the Party in 1903, Preobrazhensky was a leader of the Bolsheviks in Siberia and the Urals in the immediate aftermath of the February (1917) Revolution, and was active in Moscow and on various war fronts after the Bolshevik seizure of power. In the spring of 1918, when the party was split over the problem of whether or not to sign the Brest-Litovsk Treaty, Preobrazhensky sided with his later enemy Bukharin and the so-called 'left communists', who believed in a revolutionary war. Lenin had the greatest difficulty in persuading the party to agree to the Treaty. In 1919 Preobrazhensky was co-author with Bukharin of a well-known booklet, 'The A.B.C. of Communism' (*Azbuka Kommunizma*), which was translated into many languages, including English, and was quite popular in the Communist world until both these authors ran foul of Stalin. While the booklet seems remarkable for its utopian-optimistic 'extremism, the authors' views were at that time shared by the bulk of the party.

In 1920 Preobrazhensky worked in the party's central organs and became one of its three secretaries, the other two being Krestinsky and Serebryakov. The party secretariat did not yet have the importance it acquired under Stalin, who became general secretary in 1922. Preobrazhensky and his fellow secretaries were indeed replaced in 1921, and the fact that the senior of the new secretaries was Molotov suggests that this was a significant step in Stalin's gradual assumption of power. Preobrazhensky was not again to hold a senior post in the party hierarchy.

As early as 1920 his name became linked with that of Trotsky. He supported him in November 1920 in a dispute over the militarization of trade unions for the purposes of reconstruction. In due course Preobrazhensky became the leading theoretician of the Trotskyite opposition, while his former partner Bukharin turned from the extreme left to extreme caution and became the principal ideologist of the 'right' during the twenties. The controversies of the twenties were dominated by the problem of NEP, the so-called New Economic Policy. In the civil-war period Soviet Russia came to be governed under a system which became known as 'war communism'. The State nationalized virtually all

industry, outlawed private trade, forcibly prevented the peasants from marketing their own products, and sought to requisition surpluses. Money lost virtually all value, industrial production declined catastrophically, the inefficient and inexperienced Bolshevik State proved incapable of organizing trade and distribution. The peasants resisted requisitions and reduced production. Towns starved. Part of the chaos and confusion was due to the Civil War, but the system of 'war communism' contributed greatly to bringing economic life to a standstill. At the height of the 'war communism' period, that is, in 1918-20, the left wing among Bolshevik intellectuals thought that a leap into Socialism was being accomplished, with the collapse of the economy and of the rouble as a necessary prelude to a state of affairs in which the proletariat would control all economic transactions without the use of money. At this time both Bukharin and Preobrazhensky held such beliefs, and even Lenin was affected by them. However, while 'war communism' had some kind of rationale while a destructive civil war was in progress, since it helped to concentrate the few available resources on the needs of the front, the demand for a new approach proved irresistible once the Civil War was over. Peasant riots, workers' strikes, and finally the mutiny of the sailors at Kronstadt, compelled Lenin to retreat and adopt the New Economic Policy, universally known as NEP. Private trade and small-scale private manufacture were legalized, and the peasants were free to sell to private merchants or to market their own produce, subject only to a tax in kind. It was in this setting that Preobrazhensky, representing the thinking of the Trotsky group, wrote the present book.

He was addressing himself to a problem which presented the greatest difficulty. While NEP led to a rapid recovery in both industry and agriculture, and while the State retained the so-called 'commanding heights' of the economy (large-scale industry, foreign trade), the fact remained that the Bolshevik party were ruling over a country which was 80 per cent. peasant. The peasants had divided up the land among themselves, and there were now some 25 million family holdings, many of them cultivated merely for subsistence. The peasants, once in possession of the land, were anything but a revolutionary force. During the Civil War enough of them supported the Bolsheviks, or failed to support their opponents, because they feared the return of the landlords.

But under NEP the peasants were interested in free trade and high prices, and they forged links with the private traders and petty manufacturers in the cities. The Bolsheviks, ruling in the name of the dictatorship of the proletariat, were isolated in a 'petty-bourgeois' environment and knew it. Lenin conceived NEP as a necessary retreat. By suppressing all other parties, and by retaining political power in the hands of a highly disciplined Bolshevik party, he hoped it would be possible to resume the advance towards Socialism at a more propitious moment. In his last year of active life Lenin spoke of a prolonged pause while the peasants were gradually weaned from their individualism by co-operation. Before he could elaborate his ideas he fell mortally ill, and was already unable to take effective part in political life for over a year before his death in January 1924. As he lay paralysed, the struggle for his succession began, and the social and economic arguments about how to move forward merged into the political manœuvring of ambitious men. In 1923 Trotsky, with Preobrazhensky in support, was faced with a powerful triumvirate of Zinoviev, Kamenev, and Stalin, with the latter in a key position as general secretary and master of the party machine. He was able to use this position to out-manœuvre not only Trotsky and his followers but later also Zinoviev and Kamenev. Meanwhile Bukharin, Preobrazhensky's erstwhile friend and collaborator, became the principal ideologist of NEP, stressing the vital importance of the alliance with the peasants. This led him logically to demand greater facilities for the better-off peasants, who were responsible for a large part of marketed output, the more so as marketings had declined sharply as compared with pre-war. This also led him to stress the importance of providing the kind of industrial goods which the peasants wanted, and therefore of expanding the consumer-goods industries.

The left group, of which Preobrazhensky was the principal spokesman, challenged this conception on both political and economic grounds. They saw grave political dangers arising from an increase in the power of the so-called kulaks, that is, the richer peasants. These were regarded as a deadly danger to the Soviet régime, as they might come gradually to control the villages and, through their grip on food supplies, to challenge the authority of the State. The group remembered Lenin's words that, in such circumstances, 'a capitalist is born every minute'.

As they saw it, a change in the balance of social and economic power was vital, and this would be achieved by pressing ahead with rapid industrialization. The period in which it was possible comparatively cheaply to reactivate damaged or unused factories was coming to a close. Heavy additional investment would be needed.

But how, in the conditions of NEP, could rapid industrialization be financed? It is to this question, and to the relationship between the private sector and socialized industry, that Preobrazhensky applies himself. The essential arguments of *The New Economics* first saw the light of day in lectures, then in articles published in *Vestnik Kommunisticheskoi Akademii* in 1924. The actual book appeared in 1926. The author and his arguments were soon at the centre of furious controversy. It was obvious, argued Preobrazhensky, that the relatively small and weak socialist sector could not possibly bear the whole burden of investment. Resources must be obtained from private enterprise, that is, in the main from the peasants, since these constituted about four fifths of the population. To achieve this, prices charged by the State for the products of its industry should be such as would compel peasant purchasers to contribute to investment in the socialized sector. This form of non-equivalent exchange would be a necessary substitute, in Soviet conditions, for what Marx had described as 'primitive capitalist accumulation'. Of course, argued Preobrazhensky, the Soviet state could not indulge in capitalist forms of exploitation, colonialism, robbery, and so on. None the less, there would have to be some form of 'primitive socialist accumulation' if industrialization was ever to be undertaken by it.

This doctrine evoked widespread dissent. In 1923 the Soviet economy faced the so-called 'scissors crisis': the terms of trade between town and country had become so unfavourable to the latter that the peasants were reluctant to sell their produce. To encourage them to sell more, industrial prices had to be reduced, and a vigorous drive was launched for a much needed increase in the efficiency of State industry. Those who, like Bukharin, took NEP seriously and wished to avoid a clash with the peasantry, strongly objected to the practical consequences of Preobrazhensky's case. They accused him of favouring the 'exploitation' of the peasants, of advocating a kind of internal colonialism, and

therefore of threatening the economic and political stability of the Soviet state. Stalin at this stage sided with Bukharin, though he carefully avoided committing himself too far to the latter's pro-peasant formulations. In the subsequent polemics Preobrazhensky denied that he had advocated the impoverishment of the peasants, and argued that his aims would be realized even if peasant incomes continued to rise, provided that industrial costs were reduced and agricultural productivity increased. In other words, a high rate of growth of current output would make possible a substantial increase in investment without any diminution in current consumption. He claimed to be merely stating the economically obvious when he asserted that large-scale industrialization in a peasant country would have to be largely paid for by the peasants. He charged Bukharin with playing politics.

Stalin and Bukharin were far from denying the need for industrialization. They declared themselves for 'socialism in one country', that is, they believed (or said they believed) that it would ultimately be possible to build a socialist industrial state in Soviet Russia, without the support of revolutions in developed western countries. However, they argued for caution, for slow tempos, because it was essential to avoid the break-up of the alliance between workers and peasants upon which Soviet rule was supposed to rest. Bukharin in particular would only go as fast as the peasants would let him, and spoke of 'riding into socialism on a peasant nag'. Paradoxically it was Trotsky and his supporters who denied the possibility of achieving socialism in one country, even while advocating rapid industrialization and accusing Stalin of dragging his feet. This laid the Trotskyist group open to a double charge: endangering the Soviet state by antagonizing the peasants, and showing a defeatist lack of faith in the ability of the Soviet people to build socialism. After 1923, when the prospect of a European revolution receded, this was a particularly potent argument. Trotsky and Preobrazhensky could indeed point to a whole number of quotations from Lenin, which showed him to be expecting revolution to break out in advanced countries, and to be sceptical about the chances of building socialism in Russia in isolation. However, the doctrinal impurity of the 'socialism-in-one-country' concept was not the material point. The communists were in power. They were

internationally isolated. Revolution in the west had failed. What was now to be done? It was an ideological necessity to rally the party in a struggle 'for socialism' (though under Stalin the outcome perhaps resembled Asiatic despotism more than socialism). In fact, of course, Trotsky and his friends did advocate the rapid build-up of socialist industry. However, to deny the possibility of socialism in one country seemed tantamount to admitting that Bolshevism was in a cul-de-sac, an admission unlikely to be popular with the ruling party or its supporters. Stalin and Bukharin were able to utilize this effectively in their struggle against 'Trotskyism'.

There was in fact a real contradiction in the Trotsky-Preobrazhensky attitude. They believed in rapid industrialization, feared the rich peasant, and urged the imposition on the peasants of a price structure which would permit the state to accumulate and which would be unpopular. Yet they did not face the measures of coercion that would be required if this policy were to be put into effect. Peasants who do not obtain the prices to which they believe themselves to be entitled have powerful means of redress, so long as they retain control of the land and produce. Yet the Trotskyist opposition did not advocate forcible collectivization or expropriation. It is perhaps because they felt that their policy led into a blind alley that they denied the possibility of socialism in one country, no doubt imagining that the flow of capital goods from the advanced countries of western Europe, following a socialist revolution, could alone save the situation.

The New Economics was intended as a blow at the Stalin-Bukharin view and played a major part in the Soviet industrialization debate, as may be seen by reference to Alexander Erlich's book. It was also intended to be the first part of a major work, which was never completed. The last published article that could be said to reflect Preobrazhensky's own thinking, and probably expressed some of the ideas which would have been developed in his unpublished *magnum opus*, was 'Economic equilibrium in the system of the USSR', in *Vestnik Kommunisticheskoi Akademii* No. 22, 1927. Preobrazhensky there took further and deeper his analysis of the 'contradictions' involved in trying to build socialism in the U.S.S.R. under conditions of isolation. But after this no more opportunities existed for its author's analytical talents. Even the most abstractly theoretical formulation of a

non-Stalinist view was barely conceivable in print after 1928.

The fate of Preobrazhensky was bound up with Trotsky's. Although the left opposition was joined in 1926 by Zinoviev and Kamenev, Stalin defeated them with ease. In 1927 Preobrazhensky, together with many other Trotskyites, was expelled from the party and was exiled for a time.

No sooner had he dealt with the left opposition than Stalin changed his policy and opened an attack on the peasants. In the early months of 1928 he used police methods to requisition grain. On this issue he split with Bukharin, who continued to advocate the retention of NEP and opposed measures that antagonized the peasants. In the winter of 1929-30, using brutal coercive measures, Stalin forced millions of peasants into collective farms, and the process was continued through fiscal and administrative pressure until by 1934 most of the land and the peasants were collectivized. By enforcing compulsory deliveries at low prices, while significantly increasing the prices on industrial consumer goods, Stalin levied a tribute on the peasants on a scale greater than Preobrazhensky had ever conceived. He launched industrialization at breakneck speed, with emphasis on heavy industry. In 1933 the ruthless imposition of deliveries to the State caused millions of peasants to starve. This was 'primitive socialist accumulation by the methods of Tamerlane', to borrow a felicitous phrase from N. Valentinov.

Yet it had been one of the Trotskyites' arguments that under Stalin the Communist Party had so degenerated that it was in the grip of petty bourgeois elements. ('Thermidor' was their parallel with the French revolution.) When the attack on the peasants came it spectacularly disproved this allegation. Therefore, although many of them were worried by the excesses of collectivization, many Trotskyites declared their support for the régime and sought re-admission to the party. Preobrazhensky was himself re-admitted in 1929, was expelled again in 1931, and then again re-admitted. His last public appearance was at the Seventeenth Party Congress in 1934. Like other former oppositionists he came to the Congress to apologize for past misdeeds and to denounce Trotsky. The party's great victories under Stalin, they declared, proved that they had been wrong. Preobrazhensky said all this too. The sincerity of such declarations may be taken with more than a grain of salt. However, it is worth reproducing at some length

Preobrazhensky's attack on his own doctrines and his own book since it has a rather special flavour.

I was considered one of the theoreticians of Trotskyism. You know that my theoretical works, including *The New Economics*, were used as weapons in the struggle against the party. You know that my important error consisted in mechanically comparing our economy with capitalism and erecting a law of 'primitive socialist accumulation'. I brought into this theoretical construction the lack of faith in the peasantry and contempt for the peasants which were characteristic of Trotskyism . . . I thought that by exploiting the peasants, by concentrating the resources of the peasant economy in the hands of the state, it would be possible to build industry and develop industrialisation. This is a crude analogy with primitive capitalist accumulation . . . I parted company with Leninism. Events wholly disproved what I had asserted, and Lenin's forecasts were later triumphantly made into reality under Stalin's leadership. Collectivisation, that is the essential point. Did I foresee collectivisation? I did not . . . As you know, neither Marx nor Engels, who wrote a great deal about the problems of socialism in the village, visualised just how village life would be revolutionised. You know that Engels tended to the view that it would be a rather long evolutionary process. What was needed was Stalin's remarkable far-sightedness, his great courage in facing the problems, the greatest hardness in applying policies.

In the atmosphere of 1934 Preobrazhensky could not openly defend his views. Yet, reading between the lines, what he seemed to be saying was that primitive socialist accumulation had been ruthlessly imposed by collectivization, not that his earlier doctrines had been proved false by events. All his listeners were perfectly well aware that industrialization was being made possible 'by exploiting the peasants, by concentrating the resources of the peasant economy in the hands of the state'. Of course nobody could say so, since the compulsory myth was one of happy peasants enjoying a good life in collective farms. In fact Preobrazhensky went close to challenging this myth when he said: 'Sometimes we ourselves do not appreciate the magnitude of these victories. They will be appreciated by the next generation.' Yet Preobrazhensky may have been partly sincere in his view that Stalin's collectivization represented a way out of the problem of the twenties, which the left opposition might have been insufficiently ruthless to take even if they had been in power. (Of course, he, as did Trotsky, favoured collective as against individual

agriculture; it was the imposition of the collective solution by violence which was Stalin's special 'contribution'.)

Shortly after the Seventeenth Congress we reach the period of the great purge. For reasons which cannot be discussed here Stalin decided to kill all oppositionists, past, present, and potential. Those who had earlier been prominent in public disagreements with Stalin were brought to public trial and pleaded guilty to treason, wrecking, and so on. It was known that Preobrazhensky should have been among them. A few of the old oppositionists stood firm and refused to confess, and these were not tried in public. Among those few was Preobrazhensky. In view of the pressures to which he must have been subject we must suppose him to have been a brave man. It is known that he was shot in 1937.

Preobrazhensky wrote in Marxian terminology for a public accustomed to argument in such terms. His opening chapter is heavily spiced with jargon, but readers are urged to have patience and not to give up at this point. For those unfamiliar with Marxian economics, a brief glossary is given at the end of this introduction. It also includes a few terms in common use in the twenties that may not now be understood.

Finally, what is Preobrazhensky's importance in economic thought? He identified a species of economic law or regularity. A left-wing revolution which overthrows the landlords and capitalists, and divides the land among the peasants, creates for itself a very awkward problem. In many developing countries the peasants are technically backward and are accustomed to a subsistence economy. Much of the production for the market tends to be concentrated in the hands of big estates or of the rich peasant class. By breaking up the estates the revolutionaries may achieve greater social fairness, but at the cost of reducing off-farm sales. Yet these same revolutionaries generally advocate rapid industrialization. This would require more, not less, off-farm sales, both to feed the growing towns and for export. The problem of agricultural surpluses is also linked with the financial problem of tapping the savings which make industrial investment possible. The landlord class are efficient in pumping resources out of their villages, though these are often used for unproductive purposes. The revolutionary state, faced with a multitude of small peasants, must somehow persuade them to

contribute by produce and by abstinence to industrialization. But this raises political problems of the first magnitude. No doubt in the long run the peasants can be persuaded to produce more for the market, but in the short run their needs are few and simple and, following on democratic land reform, they tend to eat better, whilst skilfully resisting efforts to tax them. The reader of Preobrazhensky is confronted by this problem, which is important in a number of developing countries today, but which is strangely neglected even by the more imaginative analysts of the economics of under-development.

GLOSSARY

Chervonets. Name given to the 'stabilized' currency unit in 1923, after the virtual collapse of the currency had discredited the name of 'rouble'. However, the rouble returned a few years later. The Ukrainian name for a rouble ('karbovanets') is now the sole remnant of the term 'chervonets'.

Expanded reproduction. This is Marx's 'erweiterte Reproduktion', which describes a situation in which society more than replaces the means of production currently used up, i.e. when there is net investment and growth.

'*Kulaks*'. Literally 'fists'. Nickname for rich peasants who exploit their fellow-peasants. Used in the twenties by the communists to describe the better-off peasants (as distinct from the 'middle peasants', who did not employ hired labour, and 'poor peasants', whose holdings were generally too small to support their families).

Value, law of value. In Marxian terms, the value of a commodity is determined by the amount of socially-necessary labour expended, directly and indirectly, in its production. Under capitalism, according to Marx, even equilibrium prices would depart from 'values' so defined, because of differences in the 'organic composition of capital' (or capital-labour ratio) in different industries. Prices would then fluctuate around the 'prices of production' (*Produktionspreis*), which would assure an equal rate of return on capital. The term 'law of value' is often used as a shorthand way of discussing market prices and exchange relationships, as against the planned and conscious allocation of resources.

Surplus product. In Marx it is that part of the value (or net product) created by human labour which is not distributed to the labourers. In capitalist society this is the 'surplus value' annexed by the capitalists, while in a socialist economy the surplus is devoted to the state's and society's purposes, including accumulation for 'expanded reproduction'.

TRANSLATOR'S NOTE

THE title-page of both the First and Second Editions of this work gives its title as: *The New Economics. An Experiment in Theoretical Analysis of the Soviet Economy. Volume I, Part I*. This is followed on the title page of the Second Edition by the words: 'Revised and enlarged edition'.

On both title-pages the book is stated to be published in 1926 by the Publishing House of the Communist Academy, Moscow, for the Economics Section of the Communist Academy.

On the back of the title-page of the First Edition the number of copies printed is given as 5,000, and on that of the Second Edition as 7,500. The two editions have different Glavlit (censorship) numbers—57,725 and 71,278 respectively.

Both editions are dedicated to P. S. Vinogradskaya (the author's wife, another Communist writer on social science subjects).

Though copies of the First Edition of this book are available in a number of British libraries, there appear to be none of the Second Edition. The present translation was made from the copies of the Second Edition in the Library of Congress and the Bibliothèque Nationale, Paris. Footnotes, or parts of footnotes, added to this English edition are printed in square brackets; those not so marked are Preobrazhensky's own.

Preobrazhensky's references to Marx's *Capital* are to the standard Russian translation by Stepanov. Equivalent references have been provided for the English reader to the edition of Volume I published in 1938 by Messrs. Allen & Unwin, and to the editions of Volumes II and III published by the Foreign Languages Publishing House, Moscow (F.L.P.H.), in 1957 and 1959 respectively.

References to Engels's *Anti-Dühring* are given for the edition published in 1934 by Messrs. Lawrence & Wishart (reprint of 1940). A reference is given to the edition of the *Selected Correspondence* of Marx and Engels published by the F.L.P.H. in 1956.

No complete edition of Lenin's Collected Works in English was in existence when the translation was made. References are

given to the 12-volume *Selected Works* published by Lawrence & Wishart in 1936-38; to *Collected Works*, Vol. XIX, published by the same publisher in 1942; and to *Articles, 1923*, published by the F.L.P.H. in 1952.

Other writings by Preobrazhensky on economic problems, which were published in 1925-7 and supplement his unfinished work *The New Economics*, are: (i) 'Economic Notes', in *Pravda* of 15 December 1925; (ii) 'Socialist and Communist Ideas about Socialism', in *Vestnik Kommunisticheskoi Akademii (V.K.A.)*, Nos. 12 and 13 (1925); (iii) 'Economic Notes', in *Bolshevik* No. 6 (1926); (iv) ditto, in No. 15-16 (1926); (v) Reply to criticisms of his views on the operation of the law of value in the Soviet economy, in *V.K.A.*, No. 15 (1926), among the critics answered being Pashukanis, Dvolaitzky, Bogdanov, Solntsev, and Kritsman; (vi) 'The Problem of Economic Equilibrium under Actual Capitalism', in *V.K.A.*, Nos. 17 and 18 (1926); and (vii) 'Economic Equilibrium in the System of the U.S.S.R.', in *V.K.A.*, No. 22 (1927).

THE NEW ECONOMICS

A Statement by the Editorial Board of the Communist Academy Publishing House

IN issuing the second edition of Comrade Preobrazhensky's book, *The New Economics*, the editorial board of the Communist Academy publishing house considers it necessary to state that *this work puts forward views which the editorial board does not share* and which are being used as the theoretical foundation for their position by groups of comrades who are at variance with our party. However, the problems of the economy of the transitional period, which are attracting very intense attention in both their practical and their theoretical aspects, call for an all-round analysis. The different tendencies of our Soviet and Party reality naturally find their expression in the field of theoretical analysis, including tendencies of a deviationist nature.

Comrade Preobrazhensky's book has been evaluated in articles written by a number of comrades, including Comrades Bukharin, Goldenberg and others; the problems dealt with in this book have provided the subject of a special discussion in the Communist Academy; and we shall have to return to them again more than once in the pages of the *Vestnik Kommunisticheskoi Akademii*. For these reasons, the editorial board, while not sharing Comrade Preobrazhensky's opinions, nevertheless considers it possible to publish his book, in the interests of ensuring an all-round analysis of the most important problems thrown up by the economy of the transition period.

FOREWORD TO THE FIRST EDITION

THE theoretical study of the Soviet system of economy undertaken by the author, the beginning of which is here offered to the reader, will be completed in two volumes. The present work is the first, theoretical part of Volume One. The second, historical part of this volume will be devoted to a brief survey of socialist and communist conceptions of socialism. Two chapters of the book, the second and third, as well as my reply to Comrade Bukharin, printed as an appendix at the end of this book, have already appeared in the *Vestnik Kommunisticheskoi Akademii*. The first, methodological chapter and the reply to opponents of mine other than Comrade Bukharin are published here for the first time.

The first chapter and half of the second chapter of the second, historical part of the first volume have already appeared in print. The whole of the second part, circumstances permitting, will be sent to the printer in the autumn of this year, 1926.

The second volume will be devoted to a *concrete* analysis of the Soviet economy, that is, of Soviet industry, Soviet agriculture, the system of exchange and credit, and the economic policy of the Soviet state, together with an examination of the first rudiments of socialist culture. In the near future the very important first chapter of the second volume will be published; this chapter will examine the problem of economic equilibrium under *concretely existing* capitalism and in the economy of the U.S.S.R.

The chapter on socialist accumulation is reproduced here with a few changes in which I have taken into account those objections, of secondary significance, which I regard as justified. In addition, I have eliminated from the exposition the term 'exploitation', used in relation to the process of alienating part of the surplus product of private economy for the benefit of the socialist accumulation fund. Further, I have made a slight transference of material from the second chapter to the third in the interests of greater coherence of exposition.

As regards objections of substance, which I consider unjustified, and also the bitter political attacks to which the second chapter

of the book has been subjected—the chapter devoted to the law of primitive socialist accumulation—I must say this, summing up certain lessons of the polemic which has taken place.

The objections of a methodological nature amounted, in the first place, to the claim that it is impossible to examine the Soviet economy in abstraction from the economic policy of the Soviet state, even if it be only a question of abstraction at a certain stage of examination. This first objection, if it be maintained, threatens with inexorable logical inevitability to thrust my opponents into the position of Stammer and his school and of the subjective sociology of Mikhailovsky, Kareyev, and others—a position that does not permit one to escape, in economic theory, from the bog of vulgar political economy, even though this should appear in a 'Soviet' edition, and thereby does not permit a single genuine step forward to be made in the scientific study of the Soviet economy.

The second methodological objection has been directed against the proposition developed in this book that economic equilibrium in the Soviet economy is established on the basis of conflict between two antagonistic laws, the law of value and the law of primitive socialist accumulation, which means denial that there is a single regulator of the whole system.¹

Those objecting to this presentation of the problem have been obliged, in the first place, to reveal their own naturalistic, non-historical conception of the law of value, in which the way in which economic processes are regulated under commodity production is confused with the regulatory role of labour-expenditure in social economy in general, the role, that is, which this expenditure has played and will play *in any system* of social production. In the second place, my opponents have been obliged, through acknowledging the law of value as the unique regulator of the economic system of the U.S.S.R., to deny utterly both that our state economy is socialist in type (however primitive this type may be) and that there is a struggle in our economy between the principle of commodity economy and the socialist tendencies of development, a struggle which is obvious to everybody. Thus my opponents have been forced to come close to the Menshevik

¹ See for this the report of the debates at the three sessions of the Communist Academy devoted to discussion of my address on 'The Law of Value in The Soviet Economy'.

conception of our economy as an historically belated shoot of capitalist economy.

The fundamental objection to the law of primitive socialist accumulation which I have formulated, and which is now more fully substantiated in this book, amounts to the following argument: 'Yes', say my opponents, 'we have socialist accumulation, but there is no *law* of primitive socialist accumulation, nor has its existence been demonstrated even to the slightest extent.' In short, the struggle between the principle of socialist planning and the market exists, but there is no struggle between the law of value and the law of primitive socialist accumulation. The whole profundity and unanswerableness of this objection is most easily grasped, without superfluous words, if it be put as it was put to me by one of my readers, in a private conversation. He said: 'What's the point of talking about a law of socialist accumulation? The Soviet Government will accumulate all it can, within the bounds of possibility.' In such an interpretation the law of socialist accumulation is reduced to a decree of the Council of People's Commissars on socialist accumulation. I am convinced that there is no difference of principle between the first argument and the second. To admit the existence of objective regularity in all the processes and tendencies of commodity economy, an objective regularity concentrated in the law of value, while denying objective regularity in the process of expanded socialist reproduction, as it develops in spite of and in conflict with the law of value, and with definite proportions (dictated from without, with compelling power) of accumulation by the Soviet State in each particular economic year, is to exclude the latter process from the field of operation of the law of causality, to undermine the basis of determinism—that is, the basis of all science in general. If things are not to get so tragic as that, my opponents must say frankly and honestly: 'There is a law here, but what it is we don't know'. Such an answer, it is true, would not be much of a recommendation for my critics' understanding of the laws of development of the Soviet economy, but at any rate they would not be hindering other people from working at theoretical examination of these laws. One has to possess a certain body of knowledge before it can be raised to the level of theory; it is impossible to create a theory out of ignorance. It is not possible with limited or, if you prefer, unlimited complacency to elevate general phrases

about the New Economic Policy, about the struggle between two principles, and so on, beyond the limits of the analysis of our economy which has been achieved in practice; it is impossible that the type of vulgar Soviet economist who is at present, with a few exceptions, the hero of the day in our economic press, both periodical and non-periodical, should be considered the normal type of Soviet, Marxist, Bolshevnik economist in general.

The next objection relates to non-equivalent exchange with private economy. I must frankly admit to the reader that to this day I do not precisely know where, in this objection, ideas of a political order, propagandist ideas, and simple misunderstandings end, and where quite ordinary theoretical ignorance begins. Under capitalism non-equivalent exchange between large-scale and small-scale production, in particular between capitalist industry and peasant agriculture, though forced to a certain extent to adjust itself in the price field to the value-relations of large-scale capitalist agriculture, is, in the sphere of purely economic relations and causes, a simple expression of the higher productivity of labour in large-scale production as compared with small. In the Soviet Union non-equivalent exchange is at present connected above all with the technical backwardness of our industry, the lower level of productivity which prevails in it as compared with the advanced capitalist countries, the higher cost of production of articles, and, finally, the historically and economically inevitable alienation, by means of price policy, of part of the surplus product of private economy for the benefit of the socialist accumulation fund. This means that as long as we have not caught up with capitalism nor completed the period of primitive socialist accumulation we shall inevitably have non-equivalent exchange with the countryside, owing both to the causes which condition non-equivalent exchange in world economy and therefore under normal conditions determine the maximum prices of our agricultural products, and to causes specifically connected with the conditions of existence of the Soviet system of economy. When the latter causes have disappeared the former will remain. This in the first place; but, in the second place, in so far as the development of large-scale and medium co-operative and socialist agriculture, and of the proportion of exchange of products between it and state industry, will dictate to non-co-operative agriculture (that is, for a long time, to the greater part of the countryside), non-equivalent exchange

will to that extent not result from the undeveloped and backward state of socialist industry but, on the contrary, from the development of the co-operative-socialist sector of agriculture and the growth of the productivity of labour in that sector. In this situation non-equivalent exchange will be merely the expression of the unprofitability of small-scale production compared with large. And, contrariwise, equivalent exchange, in these conditions, would only mean a tax on socialism for the benefit of small-scale production, a tax on machinery in favour of the three-field system, the wooden plough, and economic Asiaticism. Is this what my opponents advocate? And what in general do they advocate, beyond impotent phrases in the spirit of a new Narodism?

In conclusion, I should like to say a few words on the practical significance of serious theoretical study of the Soviet economy. The heads of capitalist enterprises, and also capitalist governments, can permit themselves the luxury of ignorance in the field of economic theory. The law of value fulfils, more surely than they or their managers, professors, and parliamentarians, the function of regulator of their economy and corrector of all their calculations. In the Soviet Union, where there is a centralized state economy of the proletariat and the law of value is restricted or partly replaced by the planning principle, forecasting plays a quite exceptional role in comparison with its role in capitalist economy, and mistakes in forecasting, owing to the centralized conduct of the economy, can have graver consequences than mistakes made by the heads of a private economy, where tendencies in one direction are counter-balanced, often through the law of large numbers, by contrary influences. But if you are to direct and guide correctly, that means forecasting, and forecasting means illuminating with the searchlights of theoretical analysis that field of phenomena where those very causes are engendered of which we want to know the consequences beforehand. There, where the intuition of such a genius and such an economist of genius as Lenin was cannot now help us by way of personal influence, theory is the only true and most democratic means of furnishing all concerned with scientific foresight in the leadership of planning. This explains the genuinely productive role of a correct scientific theory of the Soviet economy; this also entails the fact, still insufficiently recognized among us, that the socialization of industry means by its very essence a transference of responsibility

in economic leadership to science, to an extent quite unknown in capitalist economics. The growing role of the State Planning Commission is a direct index of this process.

But the theory of Soviet economy can be created only as a result of collective work. And therefore the task of this book will to a considerable extent be achieved if this attempt stimulates other economists to concern themselves with the same subject and if by our joint efforts we advance the work whose fulfilment is insistently demanded of us by the developing socialist economy of our country.

FOREWORD TO THE SECOND EDITION

THE first edition of the first part of *The New Economics* was sold out in a few weeks. The author cannot, therefore, complain of inadequate attention to his work by the reading public. Even less can he complain of silence on the part of his numerous opponents. During a period of two or three months the book was subjected to attack not less than ten times by a whole range of critics. Some very weak vessels among them will be dealt with in the appendix; the most learned of them, Comrade Bukharin, I propose to answer in this foreword.

In his articles published as feuilletons in Nos. 148, 150, and 153 of *Pravda* and entitled 'A Contribution to the Question of Economic Regularity in the Transition Period', Comrade Bukharin attempts a systematic criticism of the basic propositions of this book and in doing so sets out here and there in positive form his own point of view on certain matters which he has clarified for himself. Generally speaking, I should have preferred a different division of labour between us, namely, that Comrade Bukharin should have first set out positively his point of view on the laws of development of the Soviet economy, leaving me merely to criticize what I regard as incorrect in his constructions. This would have been more in accord with his theoretical 'status'. But if there is no other way, if Comrade Bukharin can now expound his point of view only in polemics with other people, leaving to them the risk of setting forth and solving new problems, then there is nothing to be done about it, and one must lay hold of whatever is offered.

Comrade Bukharin's feuilletons are not finished yet. But since it is not known when they will be finished, and meanwhile the ideas expressed in them, polemical thrusts and simply false interpretations of my work, have enjoyed wide circulation among the reading public, I consider that I have the right to reply to his critique even though it is not yet completed. My reply is not conclusive. It will be continued when Bukharin's critique is continued.

Comrade Bukharin begins his critique with ironical remarks about the 'professorial airs' which he has observed in my work and recalls that we were 'properly ticked off by Lenin' for this sort of 'erudition'. I must say that I, while entertaining no personal inclination to 'putting on airs', have fought and will continue to fight, like any other Marxist, in support of the Marxist championship of economic science against the conjunctural approach to our economy, regardless of whether such a struggle against vulgar economics is regarded by other people as modest or not. The charge of intellectual arrogance against Marx and Marxists is an old one. We have always been utterly indifferent to it.

As regards Lenin's dislike of 'erudition', Comrade Bukharin's quotation marks clearly show what kind of erudition is meant. Lenin did not like pseudo-erudition. To every new and serious piece of research he gave the greatest attention, regardless of the form in which it was set forth. Lenin's modesty as a theoretician, which we should all imitate, is irrelevant to our fight against vulgar economics. At the same time, being truly a great democrat in his scholarship, he did not like superfluous erudition in terminology, regarding all that as vain tinsel, which hinders the worker from understanding what we are writing about, *if it is possible to say essentially the same thing in a simpler way*. However, he would willingly have forgiven the author of *The Economic Theory of the Leisure Class*, *Imperialism and World Economy*, and *The Economics of the Transition Period* all that was displeasing in these works and even his disagreements on serious points, if he could have foreseen that his critical remarks would be understood by Comrade Bukharin as a direction to make his way from these brilliant works, through the casuistical smart-aleckries of his articles against 'Trotskyism', to the grey emptiness and dreariness of his book on Kautsky.

After these necessary remarks let us hasten to pass on to the matters under dispute.

The most characteristic feature of Comrade Bukharin's whole critique is that he has no position of his own on a number of important questions raised in my book, no position, that is, in the sense of positive views. This sterility of his critique strikes the eye very forcibly just because he has felt obliged to maintain all through the polemic an appearance of superiority to me, to

convince the reader that I am simplifying very complex problems which he, Bukharin, has examined thoroughly in all their difficulty. As a result, after the critique of my theories, the reader avidly expects from Comrade Bukharin an exposition of his own point of view in positive form in order to find in it rest for his theoretical conscience. But, alas, he finds in Comrade Bukharin's work only a full stop where the exposition ought to begin, or else hears all sorts of commonplaces which are familiar to him in other forms in elementary textbooks of Marxism. Comrade Bukharin hides in the smoke of his polemical gunfire his complete bankruptcy when it comes to understanding the laws of development of the Soviet economy. He grievously underestimates the qualified reader of his work, who has grown up in recent years and cannot be caught with threadbare phrases about 'revision of Leninism' if the critic himself has nothing to offer.

What has just been said applies fully to the question with which Comrade Bukharin begins his attack, that of the method of investigating the regularity of the Soviet economy. As the reader may remember, in my book I state that, in order to make a scientific analysis of the Soviet economy, at a certain stage of investigation it is necessary to abstract oneself from the policy of the Soviet state and from its concrete economic policy and to concentrate on analysing in their pure form the tendencies of development of the state economy on the one hand, and of the private economy on the other. To explain the economic policy of the state by economic policy is a perfectly senseless procedure, which is called in logic *idem per idem* (explaining something by itself). Such 'investigation' supplies nothing but descriptions of obvious facts. But in the Soviet Union the organs of the state as a political organization are merged with the organs which guide the state economy; thus, in addition to the economic necessity resulting from the development of the state economy on the one hand and of the private economy on the other, the economic policy of the state is influenced also by factors of a purely political kind. Therefore, in order to distinguish the operation of each of these factors, it is necessary to begin with the most important, that is, with the economics of the state economy and of the private economy, seen from the angle of their fundamental tendencies of development; and then, at a later stage of investigation, to analyse the operation both of conjunctural factors (in particular the

conjunctural resistance of private economy to the development of state economy) and of purely political factors.

What does Comrade Bukharin put forward in opposition to this kind of methodological approach?

In the first place he quite unjustly alleges that I propose to make an abstraction either from the economic policy of the state or from politics in general. I propose making a *provisional* abstraction from both of these. As regards politics, Comrade Bukharin appears to agree that this is possible, but not as regards economic policy. This only shows that he has not sufficiently thought the whole problem out and that he opposes me in an eclectic manner. Just imagine, reader, that for political reasons we conclude, say, a trade agreement which is unprofitable for our economy, an agreement which in the absence of these reasons we should not have concluded; or imagine that, for political reasons, we reduce taxation of small-scale production, although economic considerations dictate to us not a reduction but an increase in taxation. In these cases the acts of the Soviet Government, dictated by the political situation, are acts of economic policy and have long-term economic consequences. How is it possible in such cases to make an abstraction from politics without making an abstraction from that part of economic policy into which pure politics passes over? The norms of 'pure' politics are transformed into norms of economic policy. If Comrade Bukharin agrees that it is possible to make an abstraction from politics he is thereby forced to recognize that it is possible to make an abstraction also from economic policy and the constituent parts of it. But . . . if a claw is caught, the whole bird is lost.

This logical inconsistency of Comrade Bukharin's appears in full clarity if we examine his first arguments against my methodological approach.

On the one hand he writes:

Let us, indeed, pose this question: *in what* is the growth of the rational principle at the expense of the irrational expressed? The answer will be quite unambiguous: in the growth of planning. What is the basis of this planning? The answer is also obvious: the growth of the state-socialist elements in the economy, the growth of their influence and the growth of their relative weight. In what, finally, does this process find its expression from the standpoint of the special characteristics of the *regularity* of the transition period? In this fact, that spontaneous

regulators are replaced by conscious ones, that is, by the *economic policy* of the proletarian state (which from a certain period onward loses its class character, that is, denies itself, that is, ceases to be a *state*).

To make an abstraction from the economic policy of the proletarian state means taking the laws of the transition period *outside* their historical characteristics, *outside* the development of the 'spontaneous' into the 'conscious', that is, doing precisely what Comrade Preobrazhensky quite properly protests against.¹

But, on the other hand, concluding his discussion of this entire question, Comrade Bukharin says:

'From our analysis it follows that it is *absurd* to make an abstraction from the *economic policy* of the proletarian state power, for this would mean making an abstraction from the planning principle. But it is quite admissible at a certain stage of analysis to make an abstraction from the specifically political influences of definite *purely-political conjunctural fluctuations*.'

It follows that it is impossible to make an abstraction from economic policy, because this would mean 'taking the laws of the transitional period . . . outside the development of the spontaneous into the conscious'; but that from politics, which passes over into the norms of economic policy, it is possible to make an abstraction, although the state takes one decision or another based on political considerations *quite consciously*. In this case consciousness does not, in Bukharin's opinion, prevent us from making an abstraction. This miserable confusion in one and the same article, in respect of a fundamental methodological question, shows with complete clarity that either my critic himself attributes no serious significance to his first argument or else that he has taken fright at the logical conclusions to be drawn from it, which, as we shall see below, inevitably lead to the withdrawal, after the socialist revolution, of a whole field of social phenomena from the sphere of historical-materialist investigation.

But let us examine this line of argument from a different point of view. Let us admit that the Soviet state outlines quite consciously a whole system of measures in the field of economic policy. We ask, are the decisions to carry out these measures, and their practical carrying-out, causally conditioned? My critic answers this question in the affirmative, regards the opposite view

¹ See *Pravda*, No. 148.

as 'cheap idealism' and does not consider it worth while to spend any length of time on this quite clear question.

But if the consciously adopted economic policy of the state is causally conditioned, the question now arises: by what is it conditioned and how is this conditionality most easily and correctly to be discovered? Is it not possible for us here, so as not to abandon the basis of Marxism, to distinguish in this economic policy the influence of purely political factors from that of economic factors, and then, among the latter, the influence on the state economy of other economic forms?

My opponent agrees that we can distinguish politics from economics at a certain stage of investigation. Here the conscious character of the economic policy adopted by the Soviet state does not prevent us from making an abstraction from the purely political influences which affect economic activity. We ask why this 'conscious' character of policy does not allow us to distinguish the influence of non-socialist forms of production on the development of the state economy of the proletariat. Comrade Bukharin has brought forward nothing to show that it is impossible and, we say with confidence, he will never bring forward anything to this effect, because the whole of this argument of his has been made up out of nothing. He has also not adduced, and will not adduce, a single concrete example of the impossibility of making the abstraction which we are discussing. We, however, can bring forward as many concrete examples as are needed to show that the method of analysing the regularity of the Soviet economy which we recommend is both perfectly practicable and extremely fruitful. Let us analyse, for instance, the economic policy of the Soviet state on the central problem of constructing and putting into effect a general economic plan for a particular year. Let us assume that a certain level of wages, certain quantities of exchange with private economy, certain quantities of accumulation, and the need to observe certain proportions in the distribution of productive forces between branches, taken all together, make possible the development of state production by a maximum of 25 per cent. This is the optimum of expanded socialist reproduction and the normative target of the state's economic activity in the year concerned. But, owing to political considerations, the state is obliged, let us say, to reduce the taxation of small production in the country by 150 million roubles, which reduces the level of

accumulation. This reduction in accumulation reduces the possibility of developing industry, let us say, by 3 per cent. Let us suppose that this is the total deduction which *politics* makes from the optimum of development of the state economy. But in *economics* too there are deductions, due to the *private* economy. It turns out, let us say, that, because they prefer to wait for an improvement in prices, the peasants put 200 million poods of grain too little on the market, grain which was counted on as a fund for exports. As a result, our exports are less than they might have been, and imports fall short of the expected level by the corresponding amount of 250 million roubles, as a result of which we have a reduction in our acquisition of machinery, cotton, wool, rubber, &c. In consequence of this opposition from the 'peasants' plan', the state economy is contracted, let us say, by another 5 per cent. As a result, instead of a development of industry by 25 per cent, compared with the previous year, a development which would have been economically quite possible under favourable conditions, we have, owing first to political causes and, secondly to the pressure of private economy upon us, an increase in production by only 17 per cent. All this can be taken into account from the start, when the plan is being worked out, or it can come to light when the maximum-development plan is being put into effect. The essence of the matter is not affected one way or the other. In practice we find both things happening: we find both preliminary allowance for the resistance of private economy and the influence of private on state economy, an allowance which expresses itself in a cut in the optimum figure in the plan of development of state economy; and we find corrections, necessitated by private economy, in the practical implementation of the given plan. But whether the results of the resistance of private economy and its tendency of development have been foreseen or whether these resistances are discovered *post factum*, arising unexpectedly, in both cases these results act as objective forces, the influence of which we can most easily take into account if we begin our analysis with an investigation of the optimum of development of the state economy.

It is self-evident that analysis of the optimum tendency assumes fundamentally, as its very basis, all the main features of the Soviet economy. To ascribe to me such a stupidity as that I make an abstraction from the working class as the subject of the state's

economic policy, from the peasant character of the country, from the economic apparatus of the state, and so on, is possible only when there is a complete bankruptcy of genuine arguments, or a bankruptcy which, as with my opponents, is further connected with the absence of any reasoned point of view of their own on the laws of development of the Soviet economy and on all those problems which I deal with positively in my book. The method of analysing the Soviet economy which I have proposed and which I have applied in concrete investigations has its own real difficulties. But none of my opponents, Comrade Bukharin included, has any idea of these real difficulties or says a word about them, because none of my critics has apparently so much as thought about all these questions which arise when one attempts a concrete investigation of the regularity of our development.¹

Now I must mention a number of quite inadmissible distortions of my point of view which my critic has made. My work is devoted not to the analysis of the commodity-socialist system *in general* (though there are also some elements of a general theory in it), nor even to the theory of *the Soviet economy in general*, but to the theory of the economy of the U.S.S.R. in the period of operation of the law of primitive socialist accumulation. And this means that the investigation, however abstract it may be in its general part, cannot ever make an abstraction either from the existence of the Soviet power and its organs, or from the role of the proletariat as the subject of the economy, or from the existence of petty production and its tendency of development, or from the substitution, within certain limits, of planning policy for the spontaneous method of regulation, with all the special characteristics which result from this fact. I speak only of the need to make abstraction, at a certain stage of investigation, from the concrete economic policy of the Soviet state, insofar as it can never be adequate to the tendencies of development of the state economy, taken in their pure form, which urge the Soviet state towards the optimum of expanded socialist production. And this abstraction *from what is the resultant of various factors*, made in order to explain this resultant, Comrade Bukharin misrepresents as abstraction from the structural characteristics and organizational forms of the entire system. He writes: "The economic organs of the state machine are the essential summit of our specific basis.

¹ We shall deal concretely with this matter in the second volume.

To make abstraction from them means to make abstraction from the fundamental characteristic of the "new economics". The reader will perceive what a sleight of hand my theoretically-impooverished critic attempts here. I speak of the concrete economic policy of the Soviet state, from which it is necessary to make abstraction at a certain stage of investigation, in order to explain it—and Comrade Bukharin accuses me of making abstraction from the foundations of the system itself. Everyone appreciates that the economic policy carried out by the system, and the system itself, are two quite different things. The system remains, with all its structural characteristics and all the basic lines of development of its distinctive tendencies, while policy can change, and does in fact, where arithmetical magnitudes are concerned, change every year in certain respects. Thus, Comrade Bukharin has ascribed to me an absurdity and has undertaken 'in the sweat of his brow' to refute this absurdity. It is quite obvious that when people carry out such operations in the course of polemics it is not at all because they have a surplus of new ideas in their heads.

The sum total of Comrade Bukharin's objections consists of three elements: (1) Repeating certain general truths about 'the sloughing by social laws of their historical skin', and so on; that is, general truths which in the present case have nothing to do with the matter under discussion and which, by being placed near completely jejune objections, are intended, apparently, to lend an appearance of solidity to the latter. (A wild flower has found itself in the same bunch with a carnation!) (2) Statements of the kind just mentioned. The attentive reader, comparing the text of my book with Comrade Bukharin's critique, will see through all these statements for himself and thus leave me to occupy myself in this foreword with something more interesting than dreary detective work. (3) Declarations that when we analyse bourgeois economics we are dealing with a state superstructure which is not a 'component part of the production-relations, the study of which is the task of economic theory'; under capitalism economic processes develop spontaneously, whereas in the Soviet Union the basis merges with the superstructure in the state economy, and in the field of economic activity the planning principle is gradually beginning to crowd out spontaneity.

Strictly speaking this is Comrade Bukharin's only argument,

which he repeats again and again in various forms and which we have partly dealt with above.

Let us put the following question to our critic: 'If the state, as a political organization, is merged with the organs of guidance of the state economy, do we apply the method of historical materialism when analysing the society that results, or do we not?' If Comrade Bukharin says no, this means that the sociological theory of Stammmler¹ is false only in relation to bourgeois society but is true when applied to the socialist state and its economy. In the event I also suggest to Comrade Bukharin that he compare his position with the viewpoint of Lukacs on the theory of historical materialism as a conception which has significance only for class society and which, consequently, begins to lose its significance in and for the transition period. If the theory of historical materialism is applicable also to socialist society and its economy, and the merging of political organization with economic organization necessitates only some variation in the way the method is applied, about which I have said something in my book, then Comrade Bukharin has no difference of opinion with me.

Incidentally, I wish to observe here again that the merging of the political organization of society with part of its economic organization in no way prevents us from separately analysing the distinct functions of the one and the other, distinguishing political factors from economic ones and taking economic activity as the basis. In our case we must not forget, moreover, that the economic organization of the proletariat does not at all coincide with the entire economic basis of Soviet society, in which more than half of the material values are created outside the circle of the state economy.

Comrade Bukharin avoids clearly facing the question I raise when I point out that my opponents belittle the importance of the method of historical materialism so far as our system is concerned. He reproaches me for not seeing 'the originality in the relation between the basis and the superstructure which exists under the régime of the proletarian dictatorship', but says not a word as to whether this originality provides sufficient reason for replacing Marx's sociological method with some other. Well, now—yes or no? And incidentally, does my critic propose to give the method of historical materialism the brush-off in *all* those

¹ [See pp. 60 ff.]

cases where the state plays a bigger economic role than in the period of the domination of bourgeois Manchesterism—for example, in certain periods of the feudal history of society, in the state capitalism of the World War period, in the Jesuit commune in Paraguay, under Italian Fascism, and so on?

As regards the argument about the role of the social principle in our economy, we have already seen how little the conscious character of the state's economic policy hinders us from distinguishing at a certain stage of analysis what is dictated by the demands of expanded socialist reproduction from what is foisted upon the economic policy of the state by the resistance of private economy, quite independently of whether this resistance is taken into account beforehand or whether the state acknowledges it only after it has been prodded in the back by it. All this argumentation of Comrade Bukharin's is either inconsequentiality or slyness. My critic agrees that a conscious policy is a conditioned policy. But he does not say how the conditioning of this policy is actually to be sought and found. At the same time he tries to cast doubt on my method by referring to the ousting of the principle of spontaneity by the conscious principle, that is, he wants to scoop up a little argumentation from the sources of that very 'cheap idealism' a polemic with which he regards as a superfluous luxury. I now see that my polemic in that direction was not at all superfluous.

My position on the question of the two regulators in the Soviet economy is regarded by Comrade Bukharin as my 'fundamental and central mistake'. We have the right, therefore, to expect that his arguments on this point should be particularly close and convincing. Alas, disappointment awaits us here even more than in respect of what our critic had to offer us on the question of my method of study.

Comrade Bukharin begins by agreeing with my criticism of the naturalistic interpretation of Marx's law of value. This is not surprising if we remember that Comrade Bukharin has great merits in this sphere, as an economist and a commentator on Marx. It would seem that agreement between us on such an extremely important point ought to have eliminated forthwith a mass of misunderstandings and swept away all those objections which were put up to me by consistent or inconsistent supporters of the

naturalistic conception of the law. To my amazement, Comrade Bukharin, while repudiating the position of the 'naturalists', has not resisted the temptation to use against me certain arguments taken from their arsenal, just as in the case of the 'cheap idealism', cited above.

Yes, indeed. My critic has devoted several columns of his feuilleton to setting forth the idea, death-dealing in its novelty, that it is necessary to distinguish between two aspects of the law of value: first, the law of proportionality of labour-expenditure, as a general sociological foundation, and, second, the historically-transient form in which this law manifests itself under commodity production, as the value, fetishistic form of regulation. My critic needs to make this statement in order to demonstrate the proposition that, in counterposing the law of value, as regulator of commodity production, to the law of primitive socialist accumulation, I am rejecting not only the historically-transient form of the law of value but also its sociological basis, that is, the law of proportional distribution of labour. In my work, it appears, 'the proletarian planning principle' is a principle of struggle not against the value aspect of the law of proportional labour-expenditure but against this law, so to speak, 'in its material essence'. I shall show below what a muddle is to be found in the 'material essence' of Bukharin's objection, and how he himself walks all round and about this material essence without ever putting forward anything positive of his own. Here I must categorically rebut the objection which has been made, because the text of my book leaves no doubt as to my true point of view on the nature of the conflict between the two laws. Knowing my opponents well and foreseeing precisely the objection which they have here put to me, I included a special reservation in my book to the effect that in counterposing the law of primitive socialist accumulation to the law of value I have in mind the historically-transient aspect of the latter, connected with commodity production, and *not* the law of labour-expenditure. Thus, in a note specially written with objections of Bukharin's sort in mind, I say:

Here, as in all the following exposition, I speak of the law of value as the spontaneous regulator under the commodity and commodity-capitalist system of production, that is, the historically-transient *form* assumed in exchange society by the regulation of the economy by labour-expenditure. I do *not* speak of this regulation *in itself*. *This*

regulation will exist under planned society too, but will be effected in another way, that is, on the basis of direct calculation of labour-time.¹

Furthermore, the reader can read in the methodological chapter of my book:

The second thing to be rejected is, of course, the confusion between proportionality in the economy, which is objectively necessary for every system of social production with division of labour, and the historically-transient method of achieving this proportionality on the basis of the law of value. A correctly proportioned distribution of labour is needed both for capitalism and for socialism, and also for our present commodity-socialist system of economy . . . Are we to suppose, then, that the proportions we need are *dictated* by the law of value as regulator, and can only be found through it, since the law of value is historically and, if you like, materially and physically linked with and inseparable from commodity production, as production in which private property in the instruments of production is predominant? . . . Why can we not say that we find the necessary proportions *in the main* by our methods? . . . And if this is possible, if it is even 50 per cent. possible, then to say that we have basically only one regulator means crudely confusing the form of regulation on the basis of labour-expenditure under capitalism with the objective economic need for proportional distribution of labour which exists not only for commodity and commodity-capitalist economy and which can be established not only by capitalist methods.²

Comrade Bukharin had not noticed the first of these passages in my book. But later he himself quotes the second and is obliged to acknowledge that it constitutes 'a sort of counter-objection' (what modesty in this acknowledgement!). But instead of accepting my warning as meant for him and putting an end to his empty flow of words, he keeps on for eight columns of his feuilleton forcing an open door. I ask everyone familiar with Marxist political economy whether the two passages I have quoted are not sufficient for a literate economist to grasp my point of view and whether even one of them would be inadequate for the purposes of an honest polemic. Thus, when I speak of the conflict between the law of primitive socialist accumulation and the law of value I have in mind the conflict between two regulators, con-

¹ *The New Economics*, 1st edition, p. 70 [p. 95, note 1, of this translation].

² *The New Economics*, pp. 47-48 [pp. 74-75 of this translation].

sidering them from the standpoint of their historical form (the specific features, that is, which distinguish them one from the other, and the economic consequences of their operation in economic life), and not at all from the standpoint of the law of labour-expenditure, which forms the foundation of *both* of these regulators and lies at the basis of *all* economic regulation in general. The question whether it would be correct to speak in this connexion about two regulators or about two different forms in which one and the same regulator manifests itself is an important question for supporters of the naturalistic conception of the law of value, but not for supporters of the view that the law of value is the regulator of commodity production and disappears along with it. After all, the law of proportionality of labour-expenditure can manifest itself under commodity production *only* as the law of value, that is, as a law whose historical form of manifestation is *merged* with its sociological basis, that is, with regulation on the basis of labour-expenditure. It is only because of this merging that the law of value reproduces precisely the relations of commodity economy, and it is only with the existence and development of these relations that it can function as regulator. Contrariwise, the disappearance and dissolution of the production-relations of commodity economy dissolve the very basis of the existence and manifestation of the law of value as regulator.

But this does not abolish the regulatory role of the law of proportionality in labour-expenditure. That law merely assumes a different form now, as people's production-relations also assume a different form. When the planning principle has fully triumphed, under communist production-relations, regulation on the basis of labour-expenditure will take the form of calculating the labour-time expended at a given level of technique on the production of goods in the different branches of the economy. The distribution of labour-power will then be carried out according to a rational plan the purpose of which will be to satisfy a certain quantity of human requirements with the least possible expenditure of power, there being a certain quantity of productive forces available for use. The position is, however, that when we counterpose to the law of value the rational, planned regulation of society, we have in mind the *complete and finished antithesis of capitalism*, that is, communist society.

And now the question arises: during the long transitional period

from capitalism to communism, what form must be taken by the law of regulation on the basis of labour-expenditure? Will some other law prevail—a regulator based on the same general sociological law of proportionality of labour-expenditure, but now assuming a fresh form and, unlike the law of value, reproducing on an expanding scale not capitalist but socialist relations of production? Or will there be no specific law for the transitional period—will the law of value, having lost its economic basis, be replaced by a ‘law of simple labour-expenditure’, that is, will the removal of the specific historical features of the law of value lay bare in pure and rational form its sociological foundation?

Comrade Bukharin stands for the second point of view. In his opinion, ‘it follows from Marx’s analysis also, as surely as twice two is four, that the law of value cannot grow over into anything other than the law of labour-expenditure and that any other “growing-over” is glaring nonsense’.

Let us examine this problem, which is extremely important for understanding the development of the Soviet economy.

But, first of all, let us dispose of the reference to Marx, which my critic puts forward not only as testimony to his ignorance of the laws of the Soviet economy, but also in such a way as to make Marx join with him in saying *ignorabimus*, that is, we *shall not* know. In the first chapter of the second part of my book, published under the title ‘Socialist and Communist Ideas about Socialism’.¹ I have quoted the most important passages in writings of Marx and Engels where our teachers speak about socialist production in contrast to capitalism. It is self-evident that in making such a contrast they make one also between the law of value and regulation on the basis of expenditure of labour-time, but neither were able nor wished to say anything else, for fear of becoming unscientific. Marx did not investigate the regularities of the transitional economy in their concrete forms; he left only a few general notes on this subject, mainly in the *Critique of the Gotha Programme*, and a few remarks in the drafts for the *Communist Manifesto*. Marx and Engels said that the law of value is superseded in the last analysis, but did not go into the question of the transformation of this law in the course of the transitional epoch. Their general contrasting of capitalism and communism does not directly answer this concrete question, which we raise because

¹ *Vestnik Kommunisticheskoi Akademii*, No. 12.

we start from the experience of the actually existing Soviet transitional economy, and there is no taboo on investigating its regularities. After all, Marx and Engels nowhere spoke concretely about the struggle between the plan and the market, about the 'bond', in our sense of the word, about industrialization, or about many, many other problems which the development of the Soviet economy has thrown up. Does this mean that to raise these problems is to contradict Marxism and that it is 'glaring nonsense'?

Passing on to the essentials of the question, I must say this. The law of proportionality in labour-expenditure can prevail in its pure form only in a society where class struggle has been wholly and completely ended, where the distribution of the labour force of a non-class society is carried out as a direct task of environmental control and the struggle of man with nature is not complicated and mediated by any survivals of struggle between groups of people connected with survivals of private enterprise. It is quite obvious that in the transitional epoch the law of regulation by labour-time cannot manifest itself in its classical form, because the transitional period will be full of the struggle between socialist production and commodity production or its survivals, and this means that the distribution of people and instruments of production *cannot be fully rationalized and subordinated to the single task of satisfying society's requirements*. Mixed up with this task is the still uncompleted task of reconstructing the social structure itself so as to put it on a non-class foundation.

What form can be assumed by the law of distribution of productive forces on the basis of labour-expenditure in the transitional economy?

If that question envisages an economy with a mixed structure, in which the socialist sector has succeeded in developing all its inherent economic advantages over private enterprise, and is ousting the latter both automatically and steadily, as in its day the capitalist factory ousted handicraft, then I can say nothing reliable or with any scientific basis about the regularities of this period, since the object of study does not exist. We can set up only hypotheses. Perhaps the law of proportional distribution of labour will assume here the form of a law of socialist accumulation in some very much more concrete expression than can be characterized by this excessively general term.

But the situation is quite different with the Soviet system of economy at the present stage of its development.

We know the Soviet economy, it is an historical fact, and we can to some extent discern its laws of development in their specific peculiarity. This consists above all in the fact that the socialist sector of our economy has not yet developed all its advantages over capitalism but still rests upon a backward technical basis quite inadequate to the level of its social structure, which is historically more progressive than the most advanced contemporary capitalism. This sector still has to master the first steps of socialism: it has to assemble, in very difficult conditions and in a very dangerous international situation, the basic elements for production necessary to beat capitalism economically, that is, by a more rapid development of its productive forces. During this period, our state economy being as it is, the law of labour-expenditure must inevitably take the form of the law of primitive socialist accumulation, and inherent in this form is a collision and uninterrupted conflict with the law of value. From this standpoint the law of primitive socialist accumulation is the law of overcoming our socialist backwardness, and is operative only in that period of development when our state economy has not achieved technical and economic predominance over capitalism.

That the law of primitive socialist accumulation is a regulator of economic life operating simultaneously and in conflict with the law of value (as the regulator of *another* system of social production) can be shown by the entire history of our industry, of the state economy in general, and of our foreign trade in particular. As I do not wish to set forth here, in this connexion, a series of conclusions from the second, concrete volume of my book, I will merely observe that we have every reason to regard the law of primitive socialist accumulation as the specific form in which the law of labour-expenditure manifests itself in our economy.

What underlies the distribution of productive forces under capitalism, that is to say, on the basis of the law of value?

This distribution of labour under the operation of the law of value ensures on the one hand the satisfaction (on the basis of an economy of commodity production) of a definite level of demands by the given society, and on the other hand it reproduces production-relations of the capitalist type, the regulator of which is the law of value.

The distribution of labour in our state economy also has an objective purpose—on the one hand, the satisfaction of social demands on the basis of production-relationships of the collective type, and, on the other hand, reproduction on an expanded scale of this type of production-relations. Reproduction on an expanded scale of these relations demands above all the accumulation of the material resources for this reproduction. This is a question of self-preservation for the system. It is this second task that conditions a *different* distribution of labour from that which is formed under the free working of the law of value. As a result, the distribution of labour which we have in our system of state economy cannot in any way be compared with that which would have taken shape if the system had been constructed solely for the satisfaction of the demands of workers in collective production, that is, if the cycle of transformation of the entire economy had been completed. On the other hand, it cannot be compared with the distribution which is dictated by the law of value in world economy. It is on this distinctiveness from both, this lack of correspondence, that the very existence of the law of primitive socialist accumulation as the regulator of our system of state economy, in antagonism to the law of value, depends.

Let us take a concrete example, one of an infinite number of possible examples, and show how this regulator works. In a given year our total exports include, let us say, agricultural products to the value of 400 millions, and we import machinery and raw materials for industry to this value—which, with a few adjustments for imports, at the same time, of agricultural machinery, seed, and so on, corresponds to what actually happens. Our planned imports and the nature of our place in the world division of labour are subject to the law of primitive socialist accumulation. This will at once be clear if we imagine ourselves for a moment included in the world division of labour on the basis of law of value. In that case, out of the 400 millions raised by exports, after deducting payments and purchases inside the country, the peasantry would buy the very much cheaper foreign goods, with a very much wider variety of choice, and our industry would not have either foreign exchange to purchase materials and machinery with, or the rural market for its own products. When we import, say, for 100 millions' worth of peasant exports, 100 millions' worth of machinery, the domestic production of which would cost 200

millions, we are accumulating basic capital for the state economy, on the basis of the law of primitive socialist accumulation, partly at the expense of petty production. If we import raw material, the additional production of which at home would cost twice as much, or which is not produced at all in our country, we replace a part of our circulating capital, simply through the working of this same law. This law, to conclude, by obliging us to secure our internal market for ourselves on the basis of struggle against the law of value, enables us to depreciate old basic capital, now technically obsolete, and to replace it gradually with technically better capital; that is, we are enabled to give our economy a new technical basis, or, in other words, to advance along the road towards overcoming our economic weakness as compared with capitalism.

If we consider the distribution of labour in the state economy in all other spheres, and also to some degree the distribution of labour between state and private economy, then we see the following all along the line: the law of proportionality of labour-expenditure operates in our country too, but the existence of collective production in the sector of state economy obliges it to reproduce *collective* production-relations on an expanded scale, as a result of which the form in which it appears is the law of primitive socialist accumulation. Through the operation of this law the state economy today supports and develops enterprises which under the operation of the law of value would be closed down. Through the operation of this law we have proportions in exchange with private economy which could not exist if the law of value operated (given the higher capitalist technique). All this taken together is a result of our economic backwardness as compared with capitalism, and of our socialist isolation. The law which concentrates in itself all the tendencies towards overcoming this backwardness is the law of primitive socialist accumulation. Under its regulation we distribute our productive forces otherwise than would be the case under capitalism—Comrade Bukharin cannot but recognize the correctness of this statement. But he does not agree that this difference results from the law which I have formulated.

From what other law, then? Comrade Bukharin has an answer to this. There is no such thing as your law of primitive socialist accumulation, there is only a regeneration, a replacement of the

law of value by the planning principle. In other words, whereas I answered a quite concrete question, arising from facts which call out to be generalized, by formulating a quite concrete law which explains the basic facts of our economy, *Comrade Bukharin talks his way out of the problem with a general phrase about the growing-over of the law of value into the law of labour-expenditure*. But this process of growing-over will go on, after all, for decades and in every country which makes the transition to the socialist organization of production, from the agrarian ones to the most highly industrialized ones. And, O my most respected critic, your audience expects you to answer this question otherwise than with a general phrase, for it knew *that* answer already before reading your feuilletons. It wants a concrete answer to a concrete question: are the basic tendencies of development of the state economy *in our Soviet economy, in the first decade of its existence*, concentrated in a specific law, or are they not? If they are not, what other conception do you propose?

Comrade Bukharin senses the pressure of this silent question from the more qualified section of his audience, and he cannot dodge it without jeopardising his reputation as a theoretician. But his attempts to squeeze out a concrete answer bring him to utter bankruptcy. While the first part of his second feuilleton was devoted to setting forth long-known truths about the law of value, the second is given over to this process of squeezing and twisting around the answer to the question.

My opponent cannot avoid the question why one and the same regulator, that is, the law of proportional distribution of labour, should give such very different results under different socio-economic formations. He writes in No. 153 of *Pravda*:

We ask ourselves, however: how is it possible that a regulator which is identical in its material essence should produce very varying phenomena in the field of economic relations? Do we in fact have, in different social structures, identical proportions between the different branches of production? Is the dynamic of these proportions and relations the same? Finally, what is the meaning of the enormous difference in the *rate* of development? Take the development of feudal society and the frenzied race run by capitalism. Or compare the rate of development of the primitive commune with the tempo of development under socialism. How is all this related to the essentially identical regulator, the law of labour-expenditure?

It appears that such questions as these vaguely hover before Comrade Preobrazhensky, too. He wants our development to be faster than under capitalism. This is a perfectly legitimate 'desire'. And since we need, it seems to Comrade Preobrazhensky, a more rapid rate of industrialization than before, a more rapid rate of accumulation, so obviously we need another law.

These questions 'vaguely hover before Comrade Preobrazhensky', engendering a 'legitimate desire' for 'more rapid industrialization'.

As to which questions hover vaguely and before whom, while others do not even hover, we shall see from our analysis of Comrade Bukharin's critique. And as regards his patronizing pat on the back about the legitimacy of our desire for more rapid industrialization, my critic's polemical method is useless, because it does not follow in any way from the material content of the fact that both of us have been brought before the court of public opinion to answer the question about the laws of development of the Soviet economy.

To the question raised above Comrade Bukharin answers: the mechanism of regulation decides the problem. And for proof he puts forward, amongst other things, the idea that the law of value itself, while remaining the form of expression of one and the same regulator, that is, the law of labour-expenditure, undergoes changes with the transition from simple commodity production to capitalist production. And that is why 'it is absurd to say that under capitalism there are two laws: the law of value and the law of prices of production; it is absurd to say that the one law contradicts the other: for the law of prices of production is the mechanism through which the law of value operates.'¹

In the first place, as a general rule, an analogy is not a proof. And here we have not even a real analogy, because it is impossible from the comparison of two different mechanisms regulating *one and the same economic system* to draw conclusions about the regulators of *two different systems* (or the mechanisms of regulation of two different systems, if Comrade Bukharin prefers that terminology). For both simple commodity production and commodity-capitalist production, while they have differences of form, belong to one and the same family in economic structure, that is, to commodity production, whereas the commodity-socialist

¹ *Pravda*, No. 148.

system and pure commodity production belong to *two different types of economic structure*.

But the attempt to compare the mechanism of two different economic systems in order to explain different results in the sphere of the distribution of labour reveals, first, that it is impossible to divorce the mechanism of regulation from the economic structure in which it appears. We need only try to imagine the law of value as regulator of socialist production, or the planning principle as regulator of commodity production, to see that we cannot separate the regulatory mechanism from the whole structure of the given economy. At the same time it becomes clear that differences in the distribution of labour are determined by the fact that the satisfaction of social demands is subordinated to the conditions of existence *of the given system*, so that a distribution of productive forces is required which, in addition to the task, common to all economic structures, of satisfying these demands, will reproduce the given system in all its historical distinctiveness. A capitalist enterprise cannot exist, as a rule, however socially necessary it may be, without making profit. And this is quite regular from the standpoint of capitalist reproduction, because in the absence of average profit the possibility of producing for the sake of surplus value is not renewed, and as a result private property in the instruments of production becomes pointless. The capitalists do not introduce a machine which, though it economizes the labour of the workers, yet does not increase profit, even though from the standpoint of production for demand this situation is quite irrational. In our state economy we have a distribution of labour which could not be maintained if the law of value were operating, nor if the law of labour-expenditure were operating in its pure form, that is, if production for demand prevailed. This is because the existing distribution of labour has also to meet the task of *reproducing the given system* (that of collective state economy) *on an expanded scale*, in spite of the fact that, technically and economically, the state economy is as yet weaker than capitalism, and expanded reproduction of relations of a certain type, which are linked with a backward level of technique is quite irrational from the standpoint of the world law of value and can take place only on the basis of struggle against this law.

In the second place, to reduce the entire problem of the conflict

of two different regulators, linked with different systems of social reproduction, and the entire difference in the material consequences of regulation, to the difference between mechanisms of regulation in the narrow sense, that is, in particular, to counterpose to the law of value an increase in the role of planning calculation as a method of accomplishing the tasks which face the state economy, is to substitute one aspect of the problem for the problem in its entirety. We carry out non-equivalent exchanges with the countryside, we hold to a strict import plan, with the purpose of reproducing the given system, and we do much else, because of the relations which exist between our system and the world market and the whole of private economy in general, but not because of the growth of the planning principle. Without all these measures we should be shipwrecked as a system, quite regardless of whether we carried out in a planned or an unplanned way the policy bringing us to shipwreck, that is, a policy contrary to that dictated to us by the law of primitive socialist accumulation.

Comrade Bukharin's attempt to answer the concrete question about the laws of development of the state economy with a general phrase about 'the law of value growing over into the law of labour-expenditure' shows quite plainly that he is absolutely unable to answer. He himself admits that he has restricted himself to 'very general notions' and promises to speak more concretely on some future occasion. We are waiting for that day. After all that we have heard from my critic, however, I remain very much a sceptic as regards the theoretical value of these 'blessings yet to come' which Bukharin promises us.

Comrade Bukharin's idea that *even* socialist accumulation *cannot be counterposed* to the law of value (to say nothing, he implies, of a *law* of primitive socialist accumulation), because our economy is growing 'on the basis of market relations', constitutes a glaring theoretical error on which a real programme of theoretical and practical opportunism could be erected. After all, if our state economy is growing in conditions of the existence of market relations and is not being dissolved in commodity economy, this is only due to a desperate struggle for its survival. We are able to 'accumulate', selling our products twice as dear as abroad, only because we have set up a barrier between our territory and the world market which we defend by force, relying on the

defensive capacity of our system as a whole. We fight for survival within the framework of market relations, *but we change their content on the basis of the struggle*. Not to see the absolutely exceptional conditions of our existence, to represent the struggle which is being waged in different forms against private economy, including the form of forced collaboration with capitalism, as being a peaceful way of life¹, means gossiping on the surface of phenomena and substituting philistinism for revolutionary Marxism in the field of scientific investigation.

In order to finish with this subject, I quote from Comrade Bukharin's second feuilleton a passage which shows the carelessness with which he has written his whole refutation of my book and that he has not managed to read to the end of what was written at the beginning of it. Here is the passage: "The process of growing-over of the law of value into the law of labour-expenditure is expressed in the fact that, in the procedure of the plan, "prices" in their semi-fictitious function (that is, no longer determined from the standpoint of the "barometric fluctuations of the market") are formed quite *differently* from how they would be formed spontaneously."²

One asks, what spontaneous regulation is meant here? If he means spontaneous regulation on the basis of the law of value and in conditions of restored capitalist relations, Comrade Bukharin has already recognized, earlier on, that in such a case the proportions of the distribution of labour would be different from what they are in our present state economy. If he only means that one can theoretically imagine spontaneous regulation under conditions of the existence of state economy, then the conclusion to be drawn from that proposition unravels everything that Comrade Bukharin has managed to weave around the fundamental question. If the distribution of labour would be the same under spontaneous regulation as under conscious regulation, this only shows that the nature of the regulatory mechanism in itself is irrelevant and that no growing-over of the law of value into the law of labour-expenditure can by itself explain the specific features of the distribution of productive forces in our country as compared with capitalism.

The reader will observe that this is not the first contradiction

¹ [Preobrazhensky here uses the word which means the biography of a saint.]

² *Pravda*, No. 150.

in Bukharin's critique. And this contradiction has one and the same origin as the contradiction we have already pointed out. This is the lot of all those who, not having a well-thought-out conception of their own, hope nevertheless to cook one up in the course of their polemical expedition. Driven, however, by the requirements of the polemic, my opponent's critical bark has been obliged to take on board all sorts of arguments of a conjunctural type, including some which contradict each other, as a result of which the boatman doesn't know himself at the start of the expedition with what cargo and at what shore he will arrive in the end.

Comrade Bukharin, following closely the current fashion, has given his third feuilleton, devoted to a more detailed criticism of the law of primitive socialist accumulation, the title: 'The law of primitive socialist accumulation, or why ought we not to replace Lenin by Preobrazhensky?'

I myself earnestly recommend the reader not to replace Lenin by Preobrazhensky; but I should not advise him, either, to replace Lenin by the Bukharin of today, or by any of those who cover their mistakes with Lenin's great name. As a very graphic example of how Comrade Bukharin utilizes the heritage of Lenin in his own interest, we can quote his publication of one of the many notes made by Lenin in the margins of Comrade Bukharin's book *The Economics of the Transition Period*. Lenin did not like the term 'primitive socialist accumulation', which he called 'extremely unfortunate', 'a child's bauble', 'copying terms used by the grown-ups'. In Comrade Bukharin's opinion, 'this stern judgement by the leader of the proletariat and great theoretician annihilates Comrade Preobrazhensky'.

May the 'annihilated' Preobrazhensky be permitted to observe the following? The expression under debate was used in Bukharin's book which was written in the period of War Communism and attempted a theoretical interpretation of the economics of that particular period.

The economics of War Communism were those of a state economy of the war-consumption type, when we were not accumulating but were forced to *spend* our resources, as economically as possible, when production was not *reproduction* but a means of transforming raw material and basic capital into objects of consumption and means of defence. In relation to economics of

this kind Comrade Lenin considered the expression quite misplaced, and *he was right*. But *I* use this expression—or a parallel expression, ‘preliminary socialist accumulation’—in relation to our economics of *another period and a different nature*, when accumulation is taking place and constitutes the central problem of our economic policy. Consequently, Lenin’s note applies not to me but to Bukharin, who used this expression of Comrade Smirnov’s, in Lenin’s view, ‘unfortunately’, childishly. How has Comrade Bukharin’s mistake been suddenly transformed into a mistake by Preobrazhensky, and how comes it that Lenin’s note annihilates not the ‘cause of rejoicing’ but the author of a book which Lenin could not read and notes on which he did not make?

A second question. Why did Comrade Bukharin keep Lenin’s note hidden for six years and bring it to light only for the purposes of polemic, and then so clumsily that Vladimir Ilyich’s birch-twig is obviously applicable to Bukharin’s back and not to mine? And further, why does Comrade Bukharin not publish *all* the notes made by Lenin on *Economics of the Transition Period*? I have read them and found them to be of great interest to the public at large. Why, finally, does he not tell the public what Lenin thought of Bukharin’s book on historical materialism? To know Lenin’s opinion of books which have been given the status of textbooks would be very useful both for teachers and for pupils.

Let us pass now to Bukharin’s criticism of the law of primitive socialist accumulation. As usual, he begins with familiar quotations from Marx, in part quoted by me too, but does not say clearly just what they are supposed to show. It is characteristic, however, that, in setting forth Marx’s conception of the law of primitive capitalist accumulation, Comrade Bukharin has omitted a quotation which is of very great importance in clarifying the question under review. In this passage the author of *Capital* speaks of the fact that primitive capitalist accumulation means, not only ‘the separation of the producers from the means of production (that is, the formation of a class of wage-labourers), but also the accumulation in the hands of particular capitalists of sufficient means to set going larger enterprises than those of the handicraft type.’¹ Comrade Bukharin omitted this important

¹ *Capital*, Vol. I, part 1, p. 640, Stepanov’s translation. [English translation, Allen and Unwin, p. 638.]

passage not accidentally but because it very strongly underlines the appropriateness of my analogy.

Comrade Bukharin has twice asked me to what period I apply the law of primitive socialist accumulation: in his opinion, from the way I define the law one could conclude that it must operate under fully-achieved socialism. It is quite clear from the text of my book that the law relates to the period when the socialist sector has not yet won technical and economic superiority over capitalism, and by no means right up to the moment when the last handicraftsman or the last small rural producer has disappeared. Bukharin finds that, even so, 'the process is drawn out over a very long period'. On this I will observe that the period of operation of the law, that is, the period in which our state economy is still at the stage of fighting for a fresh technical basis and the possibility of developing its advantages over capitalism, depends, first, on the international situation, since a socialist revolution in the West could reduce this period to the minimum (just as an onslaught by world capitalism would break off this process, liquidating our entire system); secondly, it depends to a certain extent also on the character of our own economic policy, that is, on our greater or less consistency in the matter of carrying out the industrialization of the country.

Comrade Bukharin evidently regards as his weightiest argument against me his statement about the methodological impossibility of determining the optimum for the development of state economy. He keeps coming back to this point and he exercises his wit most frequently in relation to this. All Comrade Bukharin's objections on this point, as we shall now see, are wholly and completely based on unwillingness to understand my point of view.

Here is the essence of these objections:

It is impossible to determine the optimum for the development of state economy without analysing private economy. This law [i.e. the law of primitive socialist accumulation, E.P.], even if it existed and were correctly *formulated*, is a law of the interrelation between state economy and private economy. . . . But a law of interrelationship presumes both sides of this interrelationship. . . . If we undertake the task of investigating the transitional economy in its historical distinctiveness, then we must necessarily take as our maximum abstraction, two-class society, that is, the *combination* of proletarian state industry and peasant economy. From foreign trade (however important it may

be empirically) we can and in the first stages of analysis even must abstract ourselves, but to abstract ourselves from 'third parties' in analysing the transitional period is inadmissible; it means throwing out all *specific* theoretical problems. . . . Comrade Preobrazhensky sees the contradictions but does not see the *unity* of the national economy, he sees the *struggle* but he does not see the *collaboration*.¹

First, the law of primitive socialist accumulation as I formulate it is indeed the law of the relation of state economy to private economy (including world economy) in the given period of the development of this economy, and thereby also the law of the specific distribution of the productive forces within the state economy. It is quite absurd to reproach my idea with ignoring the second member of the interrelationship, because without this member the law itself could not exist. Comrade Bukharin falls into a wretched contradiction with himself when, on the one hand, he finds that I talk too much about alienation of surplus product from private economy and, on the other hand, that I have forgotten the second member. The second law of our economy, the law of value, about which not less is said than about the law of socialist primary accumulation, is a law based on the second member of the interrelationship, that is, on private economy within and without the U.S.S.R. After all, I do talk about the analysis of tendencies in their pure form not only in state economy but also in private economy.

Of course, definition of the optimum tendencies of state and private economy cannot be accomplished completely without concrete analysis of both, but concrete investigation is a task for a further exposition. In the first part of my work I could lay down only the general methodological lines of an approach to this analysis. Such a general approach very greatly facilitates concrete analysis. In particular, it is only thanks to this approach that I have given an explanation of the goods famine, as the result of a change in the structure of the post-revolutionary peasant budget²—an explanation which is now generally accepted. Yet this is only a small excerpt from the part of my work which is to be published as Volume II of *The New Economics*. If Comrade Bukharin finds that I have too little to say about

¹ *Pravda*, No. 153.

² See my article 'Economic Notes', in *Pravda*, 15 December 1925.

private economy, this is an objection to the *arrangement of the material* in my book, not an objection of principle to my *method of investigation*.

I have already said above that it is not only possible but also necessary to make abstraction from the conjunctural hindrances which arise from private economy and obstruct the optimum development of state economy, just as when analysing the tendencies of development of private economy it is necessary at a certain stage of investigation to make abstraction from those concrete and conjunctural hindrances which obstruct the development of private economy in its striving to overturn the whole Soviet system. Only after this can one understand the resultant economic policy of the state. It is ridiculous to think, or to attribute the thought to me, that I recommend making abstraction in the first case from the fact that private economy exists (and not only internally), or in the second case from the fact that state economy exists. When Marx, at a certain stage of his exposition of the law of value, makes abstraction from the influence of supply and demand on prices, assuming equilibrium between them, or when in the first volume of *Capital* he does not begin to examine the law of prices of production, only vulgar economists could reproach him with making abstraction from the existence of separate private producers, from the market, and from the foundations of commodity-capitalist production generally.

Comrade Bukharin says that, if my method be followed, no industrial plan could ever be drawn up, because it would mean leaving out of account the size of the peasant market, the harvest, and many other things. This argument of Comrade Bukharin's shows clearly that he does not wish to understand what he is criticising. Every specific industrial plan is a programme of economic activity *in which the resistance of private economy has already been taken into account, within the limits of the foreseeable*. But in order to take this resistance into account one has first of all to know what is the optimum of industrial development. Before retreating one must know from what position one is retreating. In general, to analyse the economy, its trends of development and its regularities, and to explain the phenomena of economic life over a definite period of time does not suffice as a recipe for compiling, let us say, an economic plan for a particular year. But

it can be of great assistance in fulfilling this practical task. If we compile, for example, the economic plan for the ensuing year at mid-year, that is, when we do not yet know the size of the prospective harvest and many other necessary figures, we rely on average figures and prepare two variants, based one on an average harvest and the other on a bad one. There are a number of other variable magnitudes, too, which cannot be calculated in advance. But, against that, knowing the trends of development of the state economy, one can calculate what its production would be under conditions of *the most favourable inter-relations between state economy and private*. Similarly, knowledge of the direction which private economy would take spontaneously on the basis of its inner tendencies enables us to foresee the important points of resistance on the part of private economy. In the last analysis it is not possible to counterpose in principle the algebra of the economic analysis of the basic trends of the two sectors of our economy to the arithmetic of the concrete figures of a particular plan or the figures of a particular economic year after it has been completed. But Comrade Bukharin's argument, even if we clear away from it the elements of misunderstanding or wilful refusal to understand, still essentially wavers to and fro within this contraposition.

Thus, Bukharin's statement that I propose to make abstraction from private economy, including peasant economy in general, is absolutely untrue. All that is involved is abstraction at a certain stage of the investigation from the conjunctural resistance of private economy; in other words it is a matter of analysing the basic tendencies and not of working on the concrete economic situation, not of studying any particular economic year. Nor can I accept Bukharin's proposal for making abstraction from foreign trade. This is not just because making abstraction from it in a specific investigation means making abstraction from the textile, rubber, woollen, and leather industries, which to a considerable extent work on foreign raw material, and from the problem of replacing the basic capital of industry through the importing of equipment. (I must mention to my critic that, if he reminds me about the role of the harvest in the compiling of the industrial plan, then from his own standpoint to make *this* abstraction is impossible, because without an export and import plan it is also not possible to draw up an industrial plan. However, I do not

wish to become involved in his confusion,¹ and I reject his proposal on other grounds.) Making abstraction from the external market means making abstraction from our reciprocal relations with world economy, it means making abstraction from our quite exceptional value-relations with it, from non-equivalent exchange, from the monopoly of foreign trade, from our almost prohibitive customs duties, the constraints on which all our industrial development literally depends in the period of preliminary socialist accumulation. This would also mean making abstraction from the basic conditions of our existence, which I myself do not do, in spite of the accusations made against me, and which I do not recommend other researchers to do.

My critic further reproaches me with talking only about the *struggle* between the two sectors of the economy and ignoring their collaboration and the unity of our entire economic system. This is a very important point in my disagreement with Comrade Bukharin and his rather numerous co-thinkers. I relate to this Comrade Bukharin's statement, already partly examined, that it is wrong to counterpose socialist accumulation to the law of value.

Let us begin with this last point. Underlying Bukharin's statement is the elementary fact that our industry, realizing its products under the conditions of market exchange and receiving the bulk of its raw material also from the market, is in a position, *with the given level of prices*, to accumulate. That is fine. But underlying this elementary fact is another one, also elementary, and much more alarming for us, namely that the current prices of our products are on the average twice as high as the prices of the same goods abroad. We accumulate with these prices only because we struggle against the world law of value, by forcibly tying our internal market to our technically backward industry while selling the exported products of peasant economy at the prices prevailing on the world market, and by subordinating our import programme to the task of accumulating basic capital and replenishing stocks of circulating capital. It follows that we accumulate not on the basis of or parallel with the operation of the law of value, but on the basis of a desperate struggle against it, which

¹ The confusion consists in Comrade Bukharin's mixing up the method of compiling a *specific* economic plan with the method of studying the *bases* of a particular economic system. This leads to confusing structural contradictions and their dynamic with clashes of the conjunctural type.

in the social field means a growth in class contradictions with the exporting groups in the countryside, that is, mainly with its well-to-do strata. This contradiction will increase as industry lags behind agriculture, and will be smoothed out only to the extent that we successfully carry out the technical re-equipment of our industry and transport. Not to see behind our miserable domestic commodity-exchange the huge and threatening shadow of the world market; not to see the thinness of the wall which separates this from the hundred-million-headed mass of our peasant population; not to see the tenseness of the whole situation and the ceaseless struggle of one system against another, is in practice to lull the vigilance of one of the contending sides, that is, the working class, to keep it in the dark about the dangers which threaten it, and to weaken its will with Potemkin villages of childish optimism in this period when it needs to continue to wage the heroic struggle of October—only now against the whole of world economy, on the economic front, under the slogan of industrializing the country. But all this also indicates—may I be forgiven the bitter truth of my words—such philistine thinking, such theoretical stupidity that, when I read the lines in Bukharin's feuilleton about the harmony between the law of value and socialist accumulation I involuntarily thought: 'Doesn't Comrade Bukharin keep, alongside his current official writings, a special diary for posterity, and in particular, hasn't he written in it about this "idea" he has just put forward: "All this is, of course, rubbish, but it was required for conjunctural reasons"?'

In our economy there is, of course, a certain unity, a certain co-operation between the two sectors. But neither this unity nor this co-operation can be understood correctly if one does not take as the axis of one's study the struggle of the socialist sector against private economy, especially on the world scale, especially with the capitalist and kulak cadres of this economy inside the country, and with the cadres which are developing into kulaks. If we take only our internal relations with private economy then, naturally, we have here both struggle and collaboration, especially if we draw a distinction between private capital and kulak economy on the one hand and the poor and middle peasants on the other. But, first, even our collaboration with the poor and middle peasantry is only a special form of struggle for the socialization of agriculture. On this there is a sufficiently clear formulation in the agrarian

part of our programme. And, secondly, we must not forget the forced character of our co-operation with private economy. There is co-operation in prison, too. Are we not in a sort of concentration camp along with the capitalist elements of our economy? We are at one and the same time warders and prisoners. We are prisoners because we are separated by the prison-wall of time from the world socialist revolution, towards which the socialist sector of our economy yearns with every fibre of its being. We are warders because by the wall of our monopoly of foreign trade, our tariff system, our planned imports and the resulting forced internal price-level we have separated our private economy from world private economy, towards which it strains, especially the capitalist forms of it. True, the middle peasantry is neutral in this struggle, with certain exceptions, but that means that it is not so much an active participant in the struggle as the arena of the struggle between the two hostile systems. We do not even speak of the fact that the orientation of part of the middle peasantry towards the side of the kulak type of economy means its struggle against socialism, while middle-peasant co-operation is only one of the forms of the struggle of socialism against private economy in general.

Just a couple of words more on my frightful felony, about which Comrade Bukharin has screamed so loudly that I was frightened myself until I realized what the fuss was all about. It turns out that my offence consists in my not warning the public that I had changed three lines in the second chapter of my work when I prepared it for publication as a complete book. Generally speaking, an author can improve his work whenever possible and is not obliged to inform his readers of every change he makes. It *would* be wrong if, in replying to a polemic based on *the original text* of his work, the author were to refer without warning to a *corrected text*. But in the present instance nothing of that kind has occurred. In the passage of my work which has been mentioned I did the following. For the small size of the peasant market as an example of an obstacle to accumulation I substituted the need to reduce prices as a task on our programme, because putting it this way underlines our link with world economy. The gap between our prices and world prices is so great that a whole period of primitive socialist accumulation will be devoted to bringing them into line by way of the technical re-equipment of our industry;

to this bringing into line we shall be forced, in some years mainly by the insufficient size of the peasant market, and during the *whole period* by the general relationship of our prices with world prices. If Comrade Bukharin likes comparing my texts and thinks this a very useful activity, I recommend him to compare the text of the second edition with the first. There are changes here too, but I regard it as superfluous to list them.

Practice is the highest court of appeal for deciding the truth or falsity of a particular theory or a particular theoretical argument. The central practical theme of the present book is the problem of accumulation in state economy. The farsightedness of my opponents is best expressed in the fact that they regard the mere posing of this problem as an attempt upon the worker-peasant bloc. Yet the State Planning Commission, drawing up its economic programmes independently of our disputes, on the basis of objective facts (which, by the way, were influenced also by our concrete economic policy during the last few years), has proposed an increase in industrial production during 1926-7 by 13 per cent. and during 1927-8 by a considerably smaller amount. And this in a situation of increasing agrarian over-population and increasing goods famine, which in 1925-6 amounted to a 380-millions deficit in goods and in 1926-7 is expected to amount to 500 millions. The obstacle to a more rapid growth of industry is not lack of labour power, not lack of effective demand, but above all insufficient basic and circulating capital, including insufficient import potential.

These figures of industrial under-production, established by the State Planning Commission, have a certain relation to the results of our dispute—as a monstrous bad mark which history has awarded to the theoretical sagacity of my opponents.

THE METHOD OF THEORETICAL ANALYSIS OF SOVIET ECONOMY

WHY do we bring under discussion the method of analysing Soviet economy? Does it not go without saying that in studying our economy we should be guided by the Marxist method?

We do so for this reason. There cannot, of course, be the slightest doubt that in studying our economy we can, must, and will base ourselves on the general principles of Marxist method, in so far as this means the method of dialectical materialism in general, and in particular the general sociological method of Marx. However, in so far as it means the method used by Marx in his political economy, that is, the method of studying the production-relations of pure capitalism, we are obliged to face a methodological problem, since the very material to be examined is substantially different. The material is different in that we have to investigate the laws not only of capitalist development but also of capitalist decay, the disappearance of capitalist production-relations, and to analyse the laws of a new economy which is taking the place of capitalism and which bears all the marks of an economy of a mixed, transitional type. Marx in *Capital* examined *classical capitalism*; what we have to examine is probably not quite classical, perhaps even definitely not classical, but all the same a living, real, and historical *first* experience of a concrete commodity-socialist system of economy. We could disregard the problem of method only if we were to pre-suppose that the method of study used by Marx in *Capital* is only an application of the general sociological method of historical materialism, and that this is possible because that method is wholly and completely, without the slightest changes or variation, applicable to the study of any system of economy, whether existing before a commodity economy or following a commodity economy. But this assumption in its turn presumes, as a tacit logical pre-supposition, that theoretical political economy is not only the science which studies merely something which is historically determined—more precisely, the commodity and commodity-capitalist system of production-relations—but also the science of human production-relations *in*

general. We know that among Marxists there is a small group who uphold that standpoint, as was shown in particular in I. I. Skvortsov's paper, at the Communist Academy, 'On the subject and method of political economy'. We must however, consider the quite incontrovertible fact which was pointed out more than once in the discussion on Comrade Skvortsov's paper, that this view of political economy is in complete contradiction with everything that Marx himself wrote on the subject and method of political economy, that it contradicts the entire theory of capitalist economy which he gave us in *Capital* and other works, and that it relies, so far as the founders of scientific communism are concerned, on two or three loose formulations by Friedrich Engels.

But if we regard it as established that Marxian political economy is the science of commodity and commodity-capitalist economic systems, then we can come to grips in real earnest with the next question, namely, whether or not there are in the method used by Marx in *Capital* certain specific elements which are connected with the specific nature of the material being studied. If there prove to be such elements, then the question arises, which of them are preserved and which of them fall away or need to be varied when we go over to analysing the system of economy which in history takes the place of capitalism—not to speak of the need to make variations even when analysing capitalism itself in its monopolist stage and in the period of its decay.

It is quite clear that we cannot answer the questions which we have just raised without saying a few words on the method of Marxian political economy in the aspect which concerns us. After this methodological excursion we shall more easily understand the problem of the method to be followed in theoretically analysing the Soviet economy.

The Method of Marxian Political Economy

In order to understand the method used by Marx in *Capital* we have at our disposal, on the one hand, a series of direct statements by Marx about method, scattered through his works, and, on the other, some specific pieces of research where the use of this method is shown in practice.

When touching on the question of method, Marx more than once tried to show how the application of the method of materialist

dialectics differs according to the specific material to be studied. He pointed out that, for example, the study of natural phenomena in those cases when it is not possible to observe the phenomena in a pure form can be carried out by mounting experiments which permit such observation. However, 'in the analysis of economic forms neither microscopes nor chemical reagents are of use. The force of abstraction must replace both' (Preface to *Capital*). Here Marx makes the first great distinction within the material to be studied by the dialectical method, that is, the distinction between nature and human society. In relation to social processes, which cannot be repeated or reproduced artificially, he considered it necessary to substitute, for the results which could in some spheres be obtained by experimentation, the force of abstraction. Essentially, the method of historical materialism is to a high degree an abstract method of investigation, because, in the indivisible complex of a social organism, in which direct relations in the process of production are very closely interwoven with what it is customary in Marxist terminology to call the 'superstructure', the Marxist begins his analysis with the centre from which all changes and all movement begin, namely, economics, separating this by the force of abstraction—at a certain stage of his investigation—from all the rest.

But the difference between the ways in which the method is used does not end there. When the basis is abstracted from the superstructure and we proceed to examine this basis (in the present case to examine commodity-capitalist economy) the material under examination itself, the specific peculiarity of the laws of the capitalist system, demands of us a further exercise of the power of abstraction. The point is that the pattern of regularity of the capitalist mode of production has its own peculiarities as it develops. In order to grasp the basic dialectical law of development of capitalist economy in its equilibrium generally, it is necessary, first, to rise above all those phenomena of concrete capitalism which prevent us from understanding this social order and its development in their purest form. Marx writes on this matter: 'In theory it is assumed that the laws of capitalist production operate in their pure form. In reality there exists only approximation; but this approximation is the greater, the more developed the capitalist mode of production and the less it is

adulterated and amalgamated with survivals of former economic conditions'.¹

Consequently, in order to understand the laws of capitalism it is necessary to build up a concept of pure capitalism, as Marx does in *Capital*. But this is not enough. So far there is, in respect of the use of abstraction, no great difference between Marx's general sociological method and the method of his political economy. The difference begins when the analysis of this pure capitalism has revealed peculiarities of this economic structure which call for an abstract-analytical method adequate to deal with them. Capitalism is an economic system which on the one hand is an indivisible, integral organism with reciprocal connexion and mutual dependence between all its parts, but which on the other hand is an unorganized system in which equilibrium is achieved purely by spontaneity, and at the same time, and also because of all this, relations between people are treated as things [reified], materialized. The essence of things does not correspond to the form in which they appear. The immanent laws of development and equilibrium of the system assert themselves through a mass of accidents and contrary tendencies, and can be grasped only on the basis of profound critical, and at the same time abstract, analysis of the basic law of the system and the forms in which it manifests itself, that is, through the establishment of the law of value, the law of the self-regulation of the capitalist mechanism. The purer we imagine capitalism to be, the more distinctly do we see all the immanent laws of its development and equilibrium, and the more obvious to us, also, is the specific nature of the very *type* of regularity or conformity to law of the capitalist economy, the concrete meaning of the word 'law' itself as applied to this social form. 'Under capitalist production, the general law acts as the prevailing tendency only in a very complicated and approximate manner, as a never ascertainable average of ceaseless fluctuations.'²

It is very important to notice that Marx is not speaking here of the complication and approximation in the working of a law applying to a concrete capitalism, where all this can be caused

¹ *Capital*, Vol. III, part 1, p. 153, Stepanov's translation. [F.L.P.H. English edition, p. 172.]

² *Capital*, Vol. III, part 1, p. 139, Stepanov's translation. [F.L.P.H. English edition, p. 159.]

by the distorting influences of other economic forms, such as survivals of feudalism. No, Marx is speaking of pure capitalism, of capitalism in general, for analysing which a *second degree* of abstraction is needed. One can think of capitalism at the stage when it has embraced the whole of world economy and in the sphere of production there are only two classes, the capitalists and the workers, and at the same time understand its laws in the spirit of vulgar economics, that is, by offering in the guise of science mere superficial description, complete with the reified relations of commodity production. It is precisely the analysis of *pure* capitalism that reveals also in the *purest* form that specific feature of regularity in commodity economy which is inherent only in an unorganized yet at the same time indivisible and coherent economic complex. And from this follows the methodological approach appropriate to the study of an economy of this type. Only by the method of abstract analytical dialectics, and only by proceeding from the concept of the law of value, can one find one's way amid all these complications which present so extremely confused a picture to the investigator. In relation to economic forms where the law of value is *not yet* operating, and also in relation to the form where it will *no longer* operate, that second degree of abstraction and that complication of methodological procedures which are typical of Marxian political economy, typical of *Capital*, are not needed. To clarify this idea let us take an example. The law of deviation of price from value, which is only the form in which the law of value manifests itself, is inherent in the capitalist system as such; it results from the entire structure of capitalism and its particular method of achieving equilibrium in the whole system of production, exchange, and distribution. 'This [i.e., the quantitative incongruity between price and magnitude of value, E.P.] is no defect, but on the contrary, admirably adapts the price-form to a mode of production whose inherent laws impose themselves only as the mean of apparently lawless irregularities that compensate one another.'¹

In these circumstances it is only thanks to the discovery of the law of value as the central law of the commodity-capitalist system that one succeeds in grasping through 'apparently lawless irregularities' the regularity of the system as a whole and its working,

¹ *Capital*, Vol. I, p. 72, Stepanov's translation. [English translation, Allen & Unwin, p. 75.]

and then in logically deducing from the operation of the law of value all the categories of political economy, as scientific descriptions of those real production-relations of capitalism which take shape spontaneously on the basis of the operation of this law in real life.

It becomes fully comprehensible also why the whole of this construction appears when expounded to be an *a priori* construction, though Marx himself arrived at it by way of critically working over an enormous amount of factual material. Only through combining the study of concrete facts with abstract analysis did he succeed in building his theory of abstract capitalism, in which real capitalism, freed from everything accidental and untypical of this economic form, lives and moves, illumined with all the colours of the rainbow, and in its turn the entire construction throws back a shaft of amazingly bright light upon capitalist relations in the real world.

Political Economy and Social Technology

Political economy is the science which reveals the laws of development and equilibrium, and (in part) the laws of decay of the commodity and commodity-capitalist mode of production, as a planless, unorganized mode of production. The antithesis of commodity production, which succeeds it in history, is the planned socialist economy. And as, in the sphere of economic reality, the commodity of the capitalist mode of production is replaced in planned economy by the product, value by the measurement of labour time, the market (in its capacity as the sphere in which the law of value manifests itself) by the book-keeping of planned economy, surplus value by surplus product, so in the sphere of science political economy gives place to social technology, that is, the science of socially organized production.

'Political economy is not technology', said Marx in his introduction to the *Critique of Political Economy*, emphasising thereby that political economy has for its direct and immediate task the analysis not of man's relations with nature, but of men's relations with each other in the process of production (as they take shape in commodity and commodity-capitalist economy). It follows from this, however, that political economy is not social technology. It studies only the production-relations of an elemental, unorganized form of economy which possesses the types of regularity inherent

only in this form, the types which reveal themselves on the basis of the operation of the law of value. Regularity appears in such a way that the result of the operation of the law does not coincide at all with the aims, plans, aspirations, and expectations of the agents of production, since they calculate merely within the limits of an extremely restricted economic field and by the very essence of the whole system can never foresee what will be the consequences, in the final, objective sense, of their uncoordinated actions, strivings, and plans. And knowledge of the laws of capitalist production and exchange, while very important for understanding what happens in production under certain conditions, cannot eliminate the domination of things over people where in the sphere of *reality* the production-relations of a commodity economy exist and operate. If all the capitalists and merchants of contemporary economy possessed a perfect knowledge of Marx's *Capital*, they would probably calculate better within the limits of their sphere of activity and would possibly commit fewer stupidities; but they would not be able to overcome these consequences in the economy which ensue from its unorganized, elemental character, from the absence of any preliminary estimation of its possible results and of any planned distribution of the productive forces. Reality proves stronger than consciousness. In *Anti-Dühring*, Engels, ridiculing Dühring's attempt to retain the law of value in the sphere of distribution 'in the future society', wrote:

The 'exchange of labour against labour on the principle of equal value', in so far as it has any meaning, that is to say, the exchangeability against each other of products of equal social labour, that is to say, the law of value, is precisely the fundamental law of commodity production, hence also of its highest form, capitalist production. It manifests itself in existing society in the only way in which economic laws can manifest themselves in a society of individual producers: as a law of nature, inherent in things and in external conditions, independent of the will or intentions of the producers, working blindly.¹

Now, one must ask, what is changed in this connexion after the transition of society to completely organized, planned, socialist production? Is the activity of human beings here subject to necessity, does regularity prevail here too in the sphere of social

¹ F. Engels, *Herrn Eugen Dührings Umwälzung der Wissenschaft*, Stuttgart, 1920, p. 339. [*Anti-Dühring*, Lawrence & Wishart edition, p. 343.]

relations? Of course. To suppose otherwise would signify repudiating the entire theory of dialectical materialism and substituting for it a conception of the world based on a relapse into the philosophy of free will—if not individual free will, then collective free will. If we regard freedom as the consciousness of necessity, then regularity in the sphere of man's economic and social activity continues to prevail here too, merely changing its form. Law 'asserts itself' under planned economy in a different way from under unorganized commodity economy. But there *is* regularity, conformity to law, though in view of the difference of form it has been considered necessary to replace the term 'law' with something different. And in so far as regularity asserts itself in a different way, to that extent also the method by which this regularity is grasped also undergoes a change. The method is changed as a result of the change in the material being investigated, and one social science is replaced by another when one passes to studying this changed material.

Let us see more concretely how the material to be studied is changed and why political economy must give place to another science. On this subject we find in Engels's *Anti-Dühring* the following classical formulation, which both he and Marx frequently repeated elsewhere and which is often understood to a considerable extent in an over-simplified, not to say vulgarized fashion. I have in mind the celebrated phrase about the 'leap into the realm of freedom'.

The seizure of the means of production by society puts an end to commodity production, and therewith to the domination of the product over the producer. Anarchy in social production is replaced by conscious organization on a planned basis. The struggle for individual existence comes to an end. . . . The conditions of existence forming man's environment, which up to now have dominated man, at this point pass under the dominion and control of man, who now for the first time becomes the real conscious master of nature, because and in so far as he has become master of his own social organization. The laws of his own social activity, which have hitherto confronted him as external, dominating laws of nature, will then be applied (*angewandt*) by man with complete understanding, and hence will be dominated by man. Men's own social organization (*Vergesellschaftung*), which has hitherto stood in opposition to them as if arbitrarily decreed by nature and history, will then become the voluntary act of men themselves. The objective, external forces which have hitherto dominated history

will then pass under the control of men themselves. It is only from this point that men, with full consciousness, will fashion their own history; it is only from this point that the social causes set in motion by men will have, predominantly and in constantly increasing measure, the effects willed by men. It is humanity's leap from the realm of necessity into the realm of freedom.¹

In connexion with this question it is useful to recall as well what Marx said about freedom and necessity in the sphere of economics.

The realm of freedom actually begins only where labour which is determined by necessity and mundane considerations ceases; thus in the very nature of things it lies beyond the sphere of actual material production. Just as the savage must wrestle with nature to satisfy his wants and to maintain and reproduce life, so must civilized man, and he must do so in all social formations and under all possible modes of production. With his development this realm of physical necessity expands as a result of his wants; but, at the same time, the forces of production which satisfy these wants also increase. Freedom in this field can only consist in socialized man, the associated producers, rationally regulating their interchange with nature, bringing it under their common control, instead of being ruled by it as by the blind forces of nature; and achieving this with the least expenditure of energy and under conditions most favourable to, and worthy of, their human nature. But it none the less still remains a realm of necessity. Beyond it begins that development of human energy which is an end in itself, the true realm of freedom, which, however, can blossom forth only with this realm of necessity as its basis. The shortening of the working day is the basic prerequisite. (*Capital*, Vol. III, part 2, p. 357.)²

From these formulations by Engels and Marx the reader can see that neither speaks of abolishing the 'laws of human social activity', though the concretely historical law of value, that is, the law which determines the activity of the agents of production in an unorganized commodity society, ceases to exist along with this type of productive system, to which it belongs. And Marx in addition makes the extremely important observation that under socialism the growth in wants must bring an increased growth of necessity, that is, in this case, growth of the economic necessity

¹ *Anti-Dühring*, same German edition, p. 306. [Lawrence & Wishart edition, pp. 311-12.]

² [F.L.P.H. edition, pp. 799-800.]

of satisfying these wants. Under socialism, and later under communism, the laws are applied and utilized by man, and in this sense man acquires mastery over them. But one can acquire mastery only over something which exists; mastering the force of steam, mastering the elemental operation of the laws of nature generally, does not mean abolishing these laws. It only means directing their operation along a desired channel. Though it is obvious that to acquire mastery over 'the laws of one's own social activity' means at the same time very significantly to change the way in which these laws manifest themselves. In this also consists the difference between the laws of capitalist production and the socio-economic regularity of planned socialist economy. Determinism prevails here too, but the forms of conditionality, of causality, are different. Let us clarify this by means of a very simple and typical example, where the structural difference between capitalism and socialism stands out very sharply, together with the difference in the *forms* of regularity which results therefrom.

Let us suppose that in a certain capitalist country there is under-production of leather footwear in comparison with the existing effective demand for this commodity on the market. First, the disproportion is revealed *post factum*, *after* the increased demand has come into existence. It could not happen otherwise where there is no social organization of production, no estimation of the dimensions of production and of effective demand. True, capitalist society has worked out its palliative methods of estimating future demand, but they only mitigate the inevitable fluctuations without being able to eliminate them, in so far as the system of distribution of productive forces remains a system of commodity economy.¹ The increased demand causes an increase in the prices of footwear and consequently leads to an unforeseen re-distribution of the national income (involving surprises which are pleasant to some and unpleasant to others), different from what it would have been if there had been equilibrium between supply and demand. After this comes an increase of production in the existing enterprises of the leather industry, an influx of new capital, perhaps fresh construction. Just as the amount of additional demand was not exactly known, because previously, before the

¹ Under monopoly capitalism, which means an increase in the organized character of production and exchange on the same capitalist basis, estimation of production, and to some extent also of effective demand, is of course carried out better than under completely free competition.

market gave warning, the fact of under-production was not known, so the additional production may overflow, and usually does overflow, the limits of the additional demand, the phase of under-production thus being succeeded by a phase of over-production, with a consequent fall in prices, a new spontaneous redistribution of the national income and of capital between different branches of production, and so on into the next disproportion. Any correspondence between supply and demand happens by accident; disproportion one way or the other is the rule. This is the way in which, through the operation of the law of value, the necessity of attaining equilibrium between production and effective demand asserts itself. The laws of man's social activity in the sphere of production confront the agents of production as forces external to themselves, blind, uncontrolled forces of nature. Just as, in order that equilibrium may be achieved in any system, a regulator is needed in the sphere of reality, a regulator specific to the given system alone, so also, in order to understand all this mechanism and the regularities peculiar to it, we need specific methodological procedures.

Let us now see how regularity will assert itself in an analogous situation under planned economy. Let us assume that an increase in the demand for footwear takes place in socialist society. The statisticians of socialist production will have calculated it, substantially, *beforehand*, through the methods of calculating mass demand which will be worked out under this form of production. The growth in demand here, called forth by the growth of population and other causes which are subject to calculation, will be taken into account in the drawing up of a production programme for the footwear industry, with all the consequences which follow from it for other branches of production. But the very fact of the growth of demand for leather footwear (in so far as it is not subjected to change through the conscious influence of society itself for the replacement of one type of shoe by another, or in so far as production itself does not consciously give rise to a *new* demand) is an *objective fact*. The regulating centres of economic life can adjust themselves to this objective fact, but cannot do away with it, cannot abolish it. And the adjustment of production to demand in this sphere calls for a number of necessary measures in the redistribution of the labour force in contiguous branches of production, including that of the raw material of leather, which,

to the extent that it deals with material of animal origin, is more dependent than other branches on natural conditions. The difficulty can be partly overcome by the release of emergency reserves, which will always play a very big part under planned economy. But in this and in any other case regularity, as an externally compelling fact, remains, though it asserts itself through means quite different from those which operate in commodity economy. It asserts itself not through the market, it gives notice of its arrival not *post factum*, but *in advance, ante factum, in the consciousness of the regulating economic organs of society*. It is not prices on the market *after production* but columns of figures of socialist book-keeping *before production* that sound the alarm and enter the consciousness of the planning centres: they inform the guiding economic centres of the growth of new demands, and thereby of an economic necessity to which they must adjust themselves. This anticipation of regularity constitutes precisely the first characteristic feature of the new, socialist production, distinguishing it from the old. This distinguishing feature appears also in the fact that the interdependence of the different parts of the productive mechanism also makes itself felt not spontaneously but in the adjustment of proportional relationships indicated in advance by the state planning centre of the socialist economy. The domination of society over the productive forces is achieved as a result of foreseeing the measures to be adopted, their consequences and their pre-requisites. With this adaptation to economic necessity the number of methods and possibilities of achieving a new aim are greatly increased. Even with the same labour force and material resources as under capitalism, an enormous increase is here achieved in the possibilities of economic manœuvring, and one change alone in the *quality* of the economic structure makes possible an increase in the *quantity* of the results attainable.

But to the extent that there is a change in the form in which economic necessity reveals itself and the form in which organized society reacts to it in the sphere of everyday life, to that extent there is also change in the method of studying this necessity and adjusting oneself to it both in the sphere of cognition and in that of science. With the abolition of the law of value in the sphere of economic reality, the old political economy is abolished likewise. Its place is now taken by a new science, the science of foreseeing

economic necessity in an organized economy and the more expedient fulfilment of needs by production and other means. This is a quite different science, this is social technology, the science of organized production, organized labour, the science of a system of production-relations where economic regularity manifests itself in new forms, where there is no more reification of human relations, where, with the abolition of the commodity, commodity fetishism also disappears, where foreseeing the results of economic measures and study of what *will be* occupies not a smaller but within a very short time a more important place than estimating objective consequences, than analysing what *was* and why it *was*. This science is in a certain sense as distinct from political economy as the market of commodity economy is distinct from the future offices of the socialist regulatory organs, with their extremely complex and ramified nervous system of social foresight and planned guidance.

*The Method of Studying the Commodity-Socialist
System of Economy*

It is a complex business to analyse an economic system in which both the planning principle—within the limits imposed by the degree of organization attained in the economy—and also the law of value, with its externally-compelling power, are operating simultaneously. The especial difficulty of studying an economy of this kind is that neither form of production is present in its pure form. While the law of value, to the extent that it manifests itself in this system, is an old acquaintance of ours, which has been sufficiently studied as it is exemplified in classical capitalism and in relation to the system of simple commodity production, the planning principle is something unfamiliar, which first emerges on to the arena of history in our economy, and has so far revealed itself to us only to a limited extent. Nor is that all. Both the law of value and the planning principle, the basic tendencies of which assume in the Soviet economy the form of the law of primitive socialist accumulation, are operating within a single economic organism, and are counterposed one to the other as a result of the victory of the October revolution. Consequently, neither law appears in its pure form. The proletarian state guides not only the state economy but also domestic and foreign policy, endeavouring to protect the system as it exists, to strengthen it, and

to bring socialist principles to triumph in it. It encounters resistance from world capitalism without and from private economy within. As a consequence of its economic policy, the real results achieved in the economic sphere do not follow the optimum line of the law of primitive socialist accumulation but a line that results from a certain relation of forces between the socialist tendencies and the opposing influences which they encounter.

It is quite obvious that under such conditions a simple description of what is and what has been will not be scientific in the true sense of that word. Marx said that if the form in which things appear and their actual essence were to coincide no science would be necessary. This does not only apply to the vulgar economists who merely describe the surface phenomena of capitalist economics, it is also a warning against any future backsliding into vulgar economics, including a vulgar approach to the study of the Soviet economy. A description of what is the result of a struggle between two principles in our economy will not explain why one particular result emerges and not another, or give a prognosis for the future. Consequently we have here too to resort to the abstract-analytical method of study and to try to ascertain what the conflicting tendencies are, first of all in their pure form. The main difficulty does not lie in analysing the law of value, nor even in those distortions and restrictions of its working which we constantly observe in our economy. For, first, we know here *what* is undergoing distortion and restriction. We can compare a photograph of the distorted law of value with the original. Furthermore, we have already acquired and studied some experience of the distortion of the law of value under monopoly capitalism, so that not all possible distortions of the working of this law are novelties and surprises for us. It is with the law of primitive socialist accumulation that the main difficulty lies—in ascertaining the inherent tendencies of *this* law in their pure form and then explaining all the restrictions to which they are subjected as a result of the operation of the law of value.

In the very attempt to analyse the law in its pure form and trace deviations from it we encounter the following difficulties, some of which have been formulated as objections. First: is it possible in general to speak of a law applying to the process of primitive socialist accumulation; is it not more correct to speak merely of

the planning principle and its operation? Secondly, is it possible and correct methodologically to analyse the working of the law in its pure form, allowing, at a particular stage of the investigation, abstraction to be made from the actual economic policy of the Soviet state, which is dictated by the entire aggregate of political circumstances? Thirdly and lastly: is it in general possible to proceed from the presupposition that two basic laws are in conflict in our economy? Which of them, then, is the single regulator of the economy?

We have partly prepared the way for the answer to the first question in what we have said already. We can speak of a *law* of primitive socialist accumulation in a sense that we shall explain. In the general sociological meaning of the word, we mean by 'law' a constancy of results when approximately the same causes are reproduced in approximately the same social situation (absolute repetitions do not occur in nature, and still less in society). A law in the economic meaning of the word is a constancy of results following from the reproduction of a certain type of production-relations. For example, the law of value begins to operate wherever the production-relations of commodity and commodity-capitalist economy appear. Let us now assume that the planning principle begins to operate in society. Does causality cease to operate here—is regularity abolished in the sphere of production-relations? We have already answered this question in the negative. The regularity is merely of a different kind, it makes its way into consciousness from the beginning: what is economically necessary is known beforehand, is taken into account in advance, and then leads to organized action in a certain direction. This is the only difference.¹ But when a new type of production-relations is

¹ In his 'Political Economy Syllabus', Comrade A. Kon writes on the question of the method of studying the Soviet economy: 'We consider it necessary, however, to emphasize categorically that, while *introducing into a course on the theory of capitalism the question of the refraction of capitalist laws in Soviet economy*, we do not intend in passing to study the *theory of the Soviet transitional economy* or, still less, the economic policy of the Soviet Government. We are fully aware that in our economy causal principles and teleological principles are combined and that for this reason *it is impossible to study the Soviet economy taking causality as one's axis*. We understand very well that in theoretically studying our economy the basic problems of political economy (the problem of value, money, surplus value, profit and so on) are to a considerable extent modified and pushed into the background by the fresh fundamental problem of the coexistence of spontaneity and the planning principle in our economy. We do not forget for one moment that our economy is transitional in its very

beginning to force a way for itself, its first task is to fight to exist and consolidate itself, which in our economy, under conditions of the growth of capitalist relations within and capitalist encirclement without, entails a constantly expanded reproduction of socialist relations, with a definite scale of expansion, objectively dictated to the Soviet state. This is a question of life and death for the whole system. But struggling for the reproduction of socialist relations means struggling to increase the means of production belonging to the proletarian State, means uniting around these means of production ever greater numbers of workers, means raising the productivity of labour throughout the system. And this also means struggling for expanded reproduction of the given system, struggling for the maximum primitive socialist accumulation. The whole aggregate of tendencies, both conscious and semi-conscious, directed towards the maximum development of primitive socialist accumulation, is also the economic necessity, the compelling law of existence and development of the whole system, the constant pressure of which on the consciousness of the producers' collective of the State economy leads them again and again to repeat actions directed towards the attainment of the optimum accumulation in the given situation. The necessity for these actions is known, though not always distinctly;¹ this

essence and that therefore even the methodological procedures of study are modified'. (pp. 19-20).

The author is quite right in saying that theoretical analysis of our economy, as an economy of a special type as compared with capitalism, demands modification even in the methodological procedures of study; which is, indeed, what I show in this book. But he is not right, either in his formulation or in the essence of the matter, when he speaks of the impossibility of 'studying the Soviet economy taking causality as one's axis'. In so far as the law of causality remains in force for planned economy too, and merely changes the way in which it manifests itself and determines the will, as a collective conscious will, to that extent in studying the regularities of our economy, as in *any scientific study generally*, it is still possible to take causality as one's axis, merely the methodological procedures of study being changed. I observe in passing that the author ought to have changed in his 'syllabus' the formula about land rent under the Soviet system, substituting an interrogative sentence for an affirmative one.

¹ Transition to consciously planned regulation is connected both historically and immanently with socialization of the instruments of production; such regulation is *inevitable* after the socialist revolution. It is, however, quite another question how far it is 'conscious'. Even if it were true that the concept 'law' disappears where conscious direction of production exists, we could still speak of a law if only because consciousness and foresight are still rather modestly developed among us.

changes the form in which the law manifests itself, but does not abrogate it. If we were to have a poor understanding of the need to act—and to act with increasing speed and energy—in the spirit of accumulation, we should be urged forward by objective facts like the growth of the goods famine, the growth of private accumulation, the danger to the existence of our entire system constituted by the weakness of our industrial and war-industrial base, and so on. Under these conditions, objections to the term 'law' grounded merely on the fact that it has changed the way in which it manifests itself and determines men's wills, amount to nothing more than philological doctrinairism.

So, then, we can speak of the law of primitive socialist accumulation. But we not only can, we *must* speak of it if we want to *advance* scientific study of our economy and its peculiarities.

The following counter-argument is often brought forward. Why talk about a law when it is merely a matter of the struggle between the socialist planning principle and the spontaneity of commodity economy? This is the objection of a man who obstinately refuses to take a bath, considering that he can quite well go without it. I agree that, for those do not want to undertake scientific analysis of our economy and the current phase of development of the socialist principle in this economy, it is possible not to advance any further. But everyone who *wants to advance* will agree that the phrase about the struggle of the socialist planning principle against the spontaneity of commodity production tells us nothing about the distinctive characteristics, the specific features of the *current period* of this struggle. This phrase, in however many forms it may be offered us, remains a jejune formula if we do not give it a concrete content connected with the present period and the present socio-economic situation of the state economy. We waged a struggle against commodity economy under War Communism, we are waging it now, and we shall go on waging it for ten, twenty and, we must expect, thirty years; and when our socialist industry has acquired a fresh technical base it will probably constitute a part of the system of socialist production of Europe, and so on. Is it possible that with regard to such different situations, such different technical and production relations, such different systems of ties between the organized economy and private economy, we should be satisfied with one and the same general phrase—which will, of course, remain true for twenty or forty

years, but just for that very reason will always be empty of content?

On the contrary, as soon as we try to advance beyond this general phrase to more concrete analysis of the regularities of our economy at the present period, as soon as we concretely raise the question of what is the meaning, at the present stage of history, of the struggle between the planning principle and commodity economy, we at once come up against the problem of primitive socialist accumulation and the regularities of this process; in the light of this the cognitive significance of our analysis is enriched with a number of generalizations which make it possible both to grasp the fundamental outlines of the law inherent in the present stage of struggle between the planning principle and the law of value, and to separate the accidental from the general, the secondary from the essential, the apparent form from the content of the matter.

The second objection of a methodological order, already voiced by some of my opponents after the appearance in the press of the second chapter of this book, is that it is incorrect to analyse the economics of the Soviet State in abstraction from its economic policy. This objection is quite groundless and goes against the general sociological method of Marx, against the theory of historical materialism. It is not at all accidental that Marx preceded his first basic economic work, *A Contribution to the Critique of Political Economy*, with a preface in which he set forth his general sociological method. His thesis about 'the basis and the superstructure' was there put forward as his justification for beginning the analysis of capitalist society with the 'basis', though a definite superstructure was always presumed as an objective social fact. In theoretical economics, abstraction begins with the very principle on which investigation proceeds, since this science begins with the basis. This is not to belittle the role of the superstructure and the importance of studying that side of men's relations in commodity economy; but investigation does not begin with the superstructure. In Marx's first draft of the plan for *Capital* there was a section on the State, but he proposed to approach this question from afar, after analysing capitalist economy in the strict sense of the word. Why is it not possible to begin with the basis in a *theoretical* analysis of Soviet economy? My opponents on this point cross over, without realizing it, from Marxist method to the camp of the well-known German sociologist Stammler and his school, and ally themselves with all the

other critics of Marxism who have attacked the theory of historical materialism precisely for its principled methodological approach to the question of basis and superstructure. Stammer, in his work *Economy and Law* [*Wirtschaft und Recht*], held that in political economy a purely economic point of view, disregarding the quite definite social forms of regulation and not conditioned by them logically, is intrinsically impossible. Opposing the separation, in study, of politics and law from economics, with particular reference to Marx's preface to the *Critique of Political Economy*, Stammer wrote:

Thus it will be correct to counterpose not economic life, economic production or economic structure and so forth, on the one hand, to the legal order and the political superstructure, on the other, but the matter of social life to its form, as two elements of the single product of man's social life.¹

And again:

Whoever wants to take as the direct object of his scientific study the social economy itself, as a coherent system of collaboration, cannot put forward and substantiate a single socio-scientific thesis which does not presuppose a previously-determined regulation of social life. Every investigation of land rent, wages, interest or profit also *depends* on the existence of a definite legal order, as also does every doctrine on money, credit, price-formation or any other chapter of political economy.²

I will refrain from giving other equally characteristic quotations. It is quite clear that my opponents have found themselves in the company, disagreeable for them, of a notable critic of Marxism and his school, with Birmann, Diehl, A. Hesse and R. Stolzmann, and also with the Russian subjective sociologists, whom they risk coming close to at another point of their argument as well.

My opponents bring up to confirm the correctness of their objections a formula which Lenin liked to repeat, about politics being concentrated economics. But they fail to show how this conception of concentration can absolve one from preliminary analysis of *what* it is that is concentrated in politics.³

¹ Rudolf Stammer, *Wirtschaft und Recht*, Leipzig, 1906, p. 324.

² *Ibid.*, 2nd edition, p. 192.

³ The statement that in our country the State guides the socialist sector of the economy and is inseparable from it shows merely that there are greater difficulties here in the way of abstraction than under capitalism, but in no way argues against the necessity of separating economics from politics *at a certain stage of investigation*.

However, if it suits them to begin their analysis where Marxists usually finish it, let them try. We will listen to what they have to say. I take my stand on Marxism and consider that it is necessary to begin analysis with the basis, with the working of the regularities of economic life, and then go on to explain the necessity of a certain policy. This was how Marx acted when he analysed both capitalist *production* and the whole system of capitalist *society*. Answering objections which had actually been voiced to him together with other possible objections, in a letter to Kugelmann on 11 July 1868 Marx wrote: 'The science consists precisely in working out *how* the law of value operates. So that if one wanted at the very beginning to "explain" all the phenomena which apparently contradict that law one would have to give the science *before* the science'. My opponents evidently consider themselves stronger than Marx and find it possible to 'give the science before the science.' This task is certainly beyond my powers. I will wait for them to begin investigating by their method. History will be grateful to them if they give 'before the science' anything different from the ordinary vulgar economics on a new basis of which we have samples enough in our economic journals and newspapers. I devote myself to the modest task of first abstracting from the actual economic policy of the State, which is the resultant of the *struggle* between two systems of economy, and the corresponding classes, so as to investigate in its pure form the movement towards the optimum of primitive socialist accumulation, to discover the operation of the conflicting tendencies, as far as possible in their pure state, and then to try to understand why the resultant in real life proceeds along one particular line and not another.

This kind of analysis is, of course, difficult in so far as the consciously adopted economic policy of the State is quite often not a reaction to the difficulties encountered in practice in developing socialist reproduction but a product of *previous calculation* or anticipation of these difficulties. What is in fact a policy forced by external pressures (as a result of the resistance of private economy) appears as a freely adopted decision. Economic necessity makes its way in the guise of an externally free choice of a definite line of policy. The conscious decisions of the regulatory organs of the State are dictated equally by the *optimum* of primitive socialist accumulation and by the need to *curtail this optimum* as a result of the resistance of private economy and the classes which

represent it. To separate the optimum in its pure form from the actual policy, which is forced to retreat from this optimum, is a very difficult task. To fulfil this task we need a concrete analysis of the entire economic and political situation at each moment of time, or at least in a definite period of economic development. This difficulty results, consequently, *from the very type of our production-relations, from the intersection in them of socialist principles with the principle of commodity production*. Here we have that very point where the use of the general fundamentals of Marxist method has to be modified by the methodological procedures which Marx used when analysing the production-relations of pure capitalism. Just here (though not only here) we also encounter that change in the material under investigation which compels us to pass over, in a certain sense, from political economy to a different science which is itself transitional between political economy and social technology. This transitional science will have to be created by the collective efforts of our economists. This science will have to study the question of how the regularities of economic life manifest themselves under a mixed commodity-socialist system of economy, how the will of the participants in collective production is determined when this collective production is linked by a thousand threads with private economy, and how relations are formed in private economy, whether developing as such or adapted to state economy in a situation where the law of value becomes increasingly restricted by the planning principle. Something new arises here, not only in state economy itself, but also sometimes in private economy, existing as it does in a situation in which the so-called *commanding heights* are occupied by the collective economy of the proletariat. The methodological procedure which I adopt in this book—and which consists in trying to distinguish at the start, in their pure forms as tendencies, the two contending principles, the two methods of distributing labour-power and means of production, in order to explain the economic resultant in actual life—is not a procedure which I am at all inclined to regard as the only possible one. If any researcher (a researcher, note, not a representative of vulgar economics) proposes another methodological procedure which proves more suitable and more appropriate to the content of our economics I shall merely have to welcome such an attempt.

From what I have said it will be to some extent clear that a

successful scientific theoretical examination of our economy requires, on the one hand, a more circumstantial analysis of the actual concept of law, regularity, necessity, in the conditions of developing collective economy, and on the other hand a continuation of the *sociological* analysis of the whole system of *Soviet society*, as a new and distinct social formation, which was begun in Lenin's works of genius. This requires an enormous collective effort on the part of our theoreticians, constantly renewed and constantly checked against experience.

I come, finally, to the third difficulty and the third objection, which arises on the basis of this difficulty. Does it not follow from the foregoing that in our economy, with its struggle between two principles, there is also the basis for two different regulators of the system as a whole? Can this be so, in general, and if so, what becomes of the definite unity of the entire system of economy, as a coherent economic organism?

That two principles are contending in our system is a fact which nobody disputes except, of course, those who see our whole economy as merely one of the varieties of bourgeois-capitalist economy. But if in the single economic organism we have a struggle between two principles, and it is through this struggle that the whole system moves forward, as is characteristic of the dialectical process of development generally, the question has to be posed in a different way—not 'can there be two regulators in such a situation?', but 'can there *not* be two regulators?' The only thing that can be regarded as a unity is each definite *resultant* of the two contending forces; this is what really decides at each moment the distribution of labour and means of production between the systems and the market form of the connexion between them, above all changing its *content* in accordance with changes in the antagonistic poles of the economic whole. If each principle is fighting for supremacy in the whole system, it is thereby fighting for the type of regulation which is organically characteristic of the particular system of production-relations, taken in its pure form. Let us make this clear by means of an example. Suppose that commodity-capitalist relations were to prevail in our economy, which in politics would inevitably mean a liquidation of the dictatorship of the proletariat, and in the economic sphere free development for the capitalist-commodity regulator of the economy, that is, the law of value. The distribution of social

labour and means of production would then take shape as it always does when the law of value operates, that is, in the rearrangement *that would best of all spontaneously reproduce capitalist-commodity relations*. With the abolition of the monopoly of foreign trade some enterprises would be abolished and others expanded, the industrialization of the country as a whole would be reduced, and this entire process would spontaneously be subordinated to the task of reproducing capitalist relations within the country and in those capitalist countries which would be involved in all this bourgeois reconstruction of our economy. The present industry of the U.S.S.R. and the pattern of its economy, in particular the distribution of productive forces between heavy and light industry, between town and country, would be substantially changed. It may be asked, is there inherent in our private economy and in the capitalist countries (earnestly striving, as their minimum programme, for the abolition of the monopoly of foreign trade and socialist protectionism), a tendency, a pressure in that direction? Yes, of course there is. And if so, then there is inherent in them a striving towards *their own* type of regulation, which will force its way wherever it does not meet with resistance from the other sector of the economy.

Now, about this other sector, the state economy. If it were to secure maximum opportunities for reconstructing the whole system as it would, above all if the proletarian revolution triumphed in Europe, then, of course, with the formation of socialist relations as the complete and unconditionally dominant type of relations in the whole economy, not only would the planning principle triumph as the method of organizing and guiding the economy, but the proportions and distribution of labour and means of production would be substantially different, both from what they are now and still more from what would result if the capitalist form triumphed and the law of value became the only regulator of the economy.

But if this is so, then one may ask: now, when the socialist sector is waging a battle for its existence and development, does there appear from this end the operation of another regulator, which tries to subject the whole system to itself, in other words to reconstruct it, and for this purpose to assemble more and more resources in order to organize labour in a new way, around means of production continually growing in quantity and improving in

quality? Yes, there certainly does. And now it is only necessary to ascertain more definitely how this law operates, what the whole of this process is concentrated in, and in what it finds its expression.

Let us assume for a moment that at this point of time we have in our economic system, taken as a whole, not a process of expanded reproduction but a process of simple reproduction. In this situation, undoubtedly, the distribution of productive forces and much else in the country's economy, as 'snapped' in 1926, say, would look very different from how they look in fact, when the system is in motion and we have expanded reproduction both in state and in private economy. But what would this difference consist in? We can partly answer this question by analogy with the distribution of productive forces under simple and expanded reproduction in capitalist economy. Those who have read the second volume of *Capital* know that Marx gives there, at the beginning, a diagram of the distribution of productive forces under simple reproduction and, later, a diagram showing their distribution under expanded reproduction. With the same total amount of capital in the whole economy the proportions of distribution of $c + v + s$,¹ within each department, and between the two departments, are then quite different. They are, so to say, drawn up as for battle; in them we perceive the proportions of the dynamic of expanded reproduction. In our economy, with expanded reproduction in both state and private economy, the arrangement of productive forces, the proportions between the socialist sector and the private sector,¹ and also the proportions between branches in the socialist sector, must differ not only from what they would be under simple reproduction, but also from the proportions of expanded capitalist reproduction at the given level of industrialization; and they are inevitably different each year as compared with the previous one. Each new year for state economy, if it is in a condition of development, means: (1) an absolute increase in production as compared with the previous year; (2) a relative increase as compared with the increase of private production; and (3) a different arrangement of forces within itself, evoked precisely by the proportionality of expanded socialist reproduction in the given year. But the law which regulates the whole of this process—the regrouping, the growth of socialist relations of

¹ Including the division of s between the consumption fund and the accumulation fund.

production, and the transference of values from private economy—is also the law of primitive socialist accumulation. In each year it dictates to us such a distribution of productive forces within the entire state economy as will anticipate their distribution also in the *following* year and to some degree for several years ahead. In the first place the level of organization already attained by the state economy, however modest it may be in general and however much lower it may be than the *already existing objective possibilities* for such organization, and, in the second place, the very nature of our capital investments, especially new construction, demand in each year a regrouping of productive forces such as will partially anticipate the proportions in the economy of the succeeding years. Otherwise we in 1926 shall inevitably create a goods famine for 1930, as well as a breach in the equilibrium between our economy and world economy, and a *débâcle*, to the advantage of private economy, in our import plans, which should be subordinated to the task of industrializing the country, and so on. What the State Planning Commission has already experienced in working out the five-year plan is not an accident. Such a deepening of the work of planning is not only an achievement to our credit but also an urgent necessity which is dictated to the collective economy directly, as an externally compelling law. The October revolution has a logic of its own on this battle-front. But if transition to such planning is inevitable, and *we cannot refrain from it* or evade it once we have socialized industry and transport (otherwise there would have been no need to take up arms in October), then there inevitably follows in 1926 such a grouping of productive forces *within* state economy as must not only answer to the needs of the economy as a whole for the particular year but also foresee as far as possible the proportions of reproduction over a number of years—something which capitalist economy, because of its very structure, cannot do on such a scale and in such a form. If we partly exclude the operation of the law of value, which preserves unorganized economy, with the disadvantages and the *advantages* of this law, we must accordingly replace its regulatory action by another law, inherent in planned economy at its present stage of development—the law of primitive socialist accumulation.

But if this law dictates to us certain proportions within state economy, *differing* from the proportions which are dictated by

the market situation *in the given year*, in exactly the same way certain quantitative dimensions of the entire process of expanded reproduction and consequently an objectively necessary minimum of accumulation of material resources (at the expense both of the resources of state economy itself and of the transfer of part of the surplus product from private economy to the socialist sector) is also *compulsorily* dictated to us in order to achieve these *proportions*. We may have a certain freedom to manoeuvre beyond the limits of this minimum, but failure to attain it will affect our system in the form of the crisis of under-production which has confronted us in 1925 and 1926. And this crisis, leading to a growth in private accumulation as a result of the increase in retail prices, weakens our position in the struggle against the bourgeois elements in our economy and is dangerous not only for our foreign exchange and for the real level of wages, but also politically. All this taken as a whole, from the standpoint of the problem we are here considering, confirms that the law of primitive socialist accumulation is the regulator from this end as well. *Not to understand that this law exists, that it has a compulsory character for state economy and has an influence on private economy, is not only a theoretical mistake, not only mental obstinacy and conservatism, but also dangerous practically, dangerous from the standpoint of the struggle for existence of our whole system of collective economy.*

I must particularly emphasize the danger of theoretical backwardness on this point because, with the centralization of the whole state economy and its leadership, forecasting plays a quite exceptionally important role in the development of our system and its preservation, not to be compared with the role of forecasting under the spontaneous type of regulation. From this there follows the enormous importance, not only scientific but directly *productive*, of a correct theory of the Soviet economy. When in a capitalist country ceaseless chattering and squabbling goes on in parliament, when in the sphere of science every self-respecting bourgeois economist and financial expert, skating on the surface of economic life, considers it his duty to cut a dash with paradoxes of his own invention, so as to distinguish himself from the rest, bourgeois society can permit itself such luxury in government and in science *because the function of regulating the economy, more intelligently and reliably than all the politicians and professors put together, is carried out by the law of value.* Not only the selfish class

interest of the bourgeoisie (as Marx showed so clearly), but also the very *structure* of capitalist production reduce economics to, at best, the role of an apparatus for photographing the current situation, or something tolerated as a smart luxury. The mistakes of bourgeois economists can have very little effect on the successes of capitalist accumulation. In our economy, where the role of forecasting is so great and is growing so rapidly, where the mistakes of economic policy are overcome so painfully by the whole economic organism, and so badly distort the forward movement, our study of economics, our theoretical foresight, our correct analysis of the economic system must acquire a quite exceptional importance. And, contrariwise, mistakes in the sphere of economic theory are dangerous to us in practice, economically and politically. In particular, it is harmful and even dangerous for us to ignore in the theoretical sphere the existence in our system not 'simply' of socialist accumulation (to be aware of that fact even vulgar economics is unnecessary), but of the *law* of primitive socialist accumulation, as an objective factor, with all the consequences resulting from it.

Some of our economists are unable to admit, as a matter of principle, that not one but two regulators are at work in our economy. This is not the outcome of profound mastery of the science of theoretical economics, but an obvious product of academic prejudice, inability to apply the method of Marxist dialectics in new conditions. It is dogmatism and pedantry, nothing more. These economists are used to analysing developed capitalism and to the conception of a single regulator—in so far as there really is only one regulator under capitalism. And they not only reveal conservatism and mental timidity, but also come into contradiction with the spirit of Marxism, with the general sociological and philosophical method of Marx, when they fear to advance from theoretical economics the distance, though it amounts to little compared with the break from capitalism, which our economy has advanced in the sphere of *everyday life*. They fear to show in practice that political economy studies only an historically transient type of production-relations, so that its transformation into a different science after the socialist revolution is quite inevitable, if any forward movement can be said to be inevitable in the sphere of theory. This mental timidity—the social roots of which I am not concerned to seek; I speak only of

the logical ones—is all the more incomprehensible in that the law of value itself did not, after all, fall ready-made from heaven, but came into operation with the development of commodity economy; it is not only not the only regulator in our economy now; it was not always that in the past, either. Did not the law of value, in that period when commodity economy was corroding and dissolving the craft system, clash with the still unliquidated craft system of regulating labour? This dualism in the past, at the dawn of capitalist development, was a fact. Why should dualism be impossible when capitalist relations are beginning to die out?

The person who has no reply to this argument is compelled, of course, to shift from methodological discussion to fresh ground and declare the following: 'It is all a question of how one estimates the relative weight of the planning principle; you exaggerate it, while we remain on the plane of reality'. Let us admit this. But it is hardly possible to outrun in logic the social and economic consequences of the October revolution. As it is put in a certain funny story, there are 'two possibilities' here, and we will consider both of them. One possibility is that there is fundamentally a single law operating as regulator in our economy, the law of value. If that is so, however, how, on the basis of this law—which, if we understand it as Marx did, must spontaneously reproduce capitalist relations—can there be expanded reproduction of socialist relations, or, what is more, an advance in the socialist *quality* of these relations?

If this position is correct, were not the Mensheviks right in their analysis of our system? Was not the late Parvus right, who considered that our economy was completely bourgeois, with enormous possibilities of development on American lines, but that the workers' government, since it interfered with the production process, was the main obstacle to the development of the productive forces of an economy of the type he supposed we had, that is, a bourgeois economy, regulated by the law of value? If our planning amounts merely to this, that we observe the inevitable operation of the law of value and under its dictation write whatever it may prescribe to us by way of a spontaneous kick in the backside (when we have made an unsuccessful 'observation'), then have we not the right to ask: if this is so, is not all our planning, all our 'socialist' regulation merely a *function* of

the law of value? How then can we *not* reproduce on an expanded scale capitalist relations and that distribution of productive forces which answers to the task of capitalist reproduction, both in the proportions of the economy and in the relations of production? One thing or the other. Either these relations cannot remain for long in inner contradiction with their 'regulator', or the regulator in our economy is not this, or, more correctly, not only this. I think that our economists with whom I am arguing on this point will decisively deny that they hold the point of view I have outlined, and will shrink from drawing such conclusions.

But then there remains another possible way of putting the question, namely, that a *struggle* is going on in our economy between two principles, though the socialist principle is very weak, weaker than in this book I estimate it to be. Formally, everybody recognizes this fact of the struggle between two principles. But for a struggle, as we know, a minimum of *two* contestants is necessary. Dualism is already present. The struggle, if it is really going on, cannot but be a struggle between two different *types* of organization of labour, distributions of productive forces, methods of regulation. How can there not be present another regulator, antagonistic to the law of value? This is not impossible, either logically or in fact. And in this case I should strongly advise those economists of ours with whom I am concerned to introduce a little of the 'planning principle' into their thinking, and show how they strike a balance in their theorizing between the proposition that our state industry is of the 'consistently socialist type', at the stage of expanded socialist reproduction (and not at the stage of expanded corrosion by commodity economy), and their obstinate assertions about there being only one regulator. It is time, high time, to strike the balance in this matter. One cannot get out of it with the phrase about the struggle of the socialist planning principle against the market. As we have shown above, in the period of War Communism also there was a struggle between the planning principle and the spontaneity of commodity economy, and it will continue in some degree for twenty to thirty years. One asks, how is the *current type of this struggle* to be distinguished from what prevailed seven years ago or from what will prevail in twenty-five years' time? In what does the regularity of this struggle consist, how does it find expression, when considered from the point of view of the socialist sector of our

economy? If you reject the law of primitive socialist accumulation, what conception do you propose?

The driving force of capitalist production is the striving for profit, its regulator the law of value. Capitalism satisfies the consumer needs of society by way of this mechanism. In particular, the worker receives his share from the fund of means of consumption through selling his labour-power. In what way is state economy different from capitalism on this point? On the one hand, it has *already* ceased to be production for profit, for surplus value. On the other, it is not *yet* production for the sake of consumption by the workers of the state economy, and still less by all the people in private economy. In our state economy an internal contradiction is here embodied, a contradiction which is connected with its nature and with the conditions of struggle for its existence and development. On the one hand it can be overturned if it does not fulfil the function of every system of production in history, that is, if it does not satisfy the social demands of the given epoch; the stimulus here, urging it on, as it were, with blows, is the consumer demand of the workers and peasants, which operates both directly (that is, not through the mechanism of striving for maximum profit, as under capitalism), and in many indirect ways (inability to carry out exchange of goods with private economy in the necessary proportions, and so on). The state economy is here still only groping to find the factors of stimulation peculiar to our system and their organized form. On the other hand, it can be overthrown in its mobile equilibrium if the necessary proportion of expanded reproduction dictated by the whole economic situation is not guaranteed by an adequately and steadily growing rate of accumulation of surplus product in material form, and this always means restriction of individual demand. The contradiction between these two tendencies within state economy does not take the form of an antagonism between classes, but it exists nevertheless. This contradiction also fully characterizes the law of primitive socialist accumulation itself, where distribution is concerned. On the one hand, expanded reproduction in the socialist sector means automatic, quantitatively-increasing reproduction of socialist production-relations, together with the corresponding proportions every year in the distribution of productive forces. But, on the other hand, this quantitative expansion of socialist relations, since it requires alienation of a certain amount of surplus

product from the state economy, and subordinates the growth of wages to the function of accumulation, limits the growth in the quality of socialist relations and maintains a gap between the wage level and the value of labour-power. We see here not only the contradiction within the law itself but also its historically-transient character. It is very important to keep this in mind when making a methodological analysis of the whole economy, and in particular of the ways in which its characteristic regularities show themselves.

When the economists already mentioned say that our planning regulation simply observes the working of the law of value, they make the mistakes analysed above *not only* because they consider the proportions in an economy established on the basis of the working of the law of value to be natural also for an economy developing otherwise than in a capitalist direction. They not only do not take into account the importance of the changes which have been made in the whole economy by the change in the structure of the peasants' budget as a result of the revolution, they not only do not want to understand that the value regulator is necessarily being edged out and objectively cannot but suffer this fate and be replaced by the regulator of the developing collective sector of the economy; but apparently they also confuse the objectively-necessary proportionality in the economy with the *methods of achieving this proportionality*, and therefore they confuse the industrialization of the country under the dictatorship of the proletariat with the growth of large-scale production generally. Meanwhile, not only the form of value, but also what we call value-relations in connexion with labour-expenditure are changed both as a result of an improvement in technique and in the productivity of labour and because of the conversion of the whole of state economy into a single trust, which with the growth in the scientific organization of labour creates a fresh factor, engendered by the co-operation of huge interlinked economic corporations. This special feature of our state economy, resulting from its socialist nature, cannot have very much effect while the level of technique is low, but it is a factor of enormous importance for bringing up the technical level of our industry to that of the advanced capitalist countries. Can we say that the changes thus brought about are connected with the working of the law of value? Do they not depend rather on its liquidation or restriction

and on the struggle for existence and development of our state economy as a type of collective economy? Neither these changes nor our most stubborn effort to oust private capital from trade and replace it with state and co-operative trade can be understood if we are to regard the law of value as the basic regulator of our whole economy. If one considers only administrative costs, private capital is 'more profitable' for the whole economy, and the productivity of labour in private trade is higher. But this is not our line of advance, despite the influence of the law of value; we are advancing along the line of another law, we are subordinating ourselves to the working of another regulator.

The second thing to be rejected is, of course, the confusion made between proportionality in the economy, which is objectively necessary for every system of social production with division of labour, and the historically-transient method of achieving this proportionality on the basis of the law of value. A correctly proportioned distribution of labour is necessary both for capitalism and for socialism, and also for our present commodity-socialist system of economy. But even if it were to be shown—and I have explained the impossibility of this—that the distribution of productive forces which actually obtains here at present on the basis of struggle coincides by some miracle with the distribution which would obtain under the rule of capitalist relations on the basis of the working of the law of value (that is, that the proportions within collective production at the present stage of industrialization of the country coincide with capitalist proportions), *even then* the proposition that there is a single regulator would not have been proved. Are we to suppose, then, that the proportions we need are *dictated* by the law of value as regulator, and can only be found through it, since the law of value is historically and, if you like, materially and physically linked with and inseparable from commodity production, as production in which private property in the instruments of production is predominant? Perhaps the replacement of private ownership by social ownership on all the commanding heights is merely a formal juridical act which involves no change in the *essence* of the system? Why can we not say that we find the necessary proportions *in the main* by our methods, which, despite the extreme paucity of our experience in planned regulation, are higher, more perfect than the methods of achieving equilibrium in the spontaneous way? Why is such a

proposition objectively impossible now, when we find the general lines of proportionality by *our own methods* of statistical calculation of requirements and effective demand, methods which include calculation both of our potential influence on private economy and of our dependence upon it, while the law of value only makes corrections by spontaneous means? And if this is possible, if it is even fifty per cent. possible, then to say that we have basically only one regulator means crudely confusing the form of regulation on the basis of labour-expenditure under capitalism with the objective economic need for proportional distribution of labour which exists not only for commodity and commodity-capitalist economy and which can be established not only by capitalist methods. Under the commodity-socialist system just this very proportionality can be established *only* on the basis of struggle against the law of value; it will always be the resultant of a struggle—though the direction in which the law of value and the law of socialist accumulation act may sometimes coincide in particular cases in real life.

It may be said: but, after all, since the commodity-money form of relationship is predominant, does this not mean inevitably that there is only one regulator, one law of value? This objection is important, but it is in fact formal and to a large extent it skates over the surface of phenomena.

If we take a brief glance at the general history of mankind, at the history of class struggle and the history of economic forms, whether a forward movement is made through antagonisms or by peacefully evolutionary means or by an alternation between the two—as a rule, always and everywhere a change in content precedes a change in the form of relations between men. It is just the same with the system of economy created by the October revolution. Our state economy is linked up with private economy, and automatically the latter penetrates into the very midst of the relations of state economy itself. Private economy, being individual economy, cannot develop without exchange forms of relationship (it is sufficient to recall our experience with the confiscation of agricultural surpluses under War Communism); state economy operating under the old form of exchange can advance remarkably far, changing the *content* of the social relations of production. To mix up form and content here, and the relative weight of one and the other, is at the present moment still to some extent

pardonable in the case of a jurist. But for Marxist economists such confusion is not pardonable; just as they cannot be forgiven when in observing how the whole system of regulation of the economy cannot but be affected by the socializing of industry and transport they see the formal aspect rather than the content.

Now we must also eliminate one misunderstanding which can arise in the reader's mind when reading the following pages of the book. Attempts are often made to demonstrate how limited are the possibilities of planned regulation by references to the many mistakes and miscalculations of the State Planning Commission and other organs which guide the economy. We make the reservation that in theoretical analysis of our economy we consider it necessary to establish and evaluate only those possibilities of regulation which exist *objectively* and depend on the real relation of forces between state and private economy, on the optimum possible degree of organization of the state economy at the given stage, on the influence on our state economy of market relations within and of the pressure of the world market without. We cannot reduce the objective possibilities of planning to the total of our mistakes and failures in planning. This would mean blaming historical necessity for every miscalculation, including the present unsuitable distribution of people among the various jobs. In exactly the same way also, it is wrong to attribute our insufficient understanding of the system of economy we are guiding and its laws, and the mistakes which result from this, whatever serious objective consequences they may have, to economic necessity, thus reducing by a corresponding percentage in theoretical analysis the possibilities of conscious regulation which are *objectively embodied in our system*.

II. THE LAW OF PRIMITIVE SOCIALIST ACCUMULATION

It would be no exaggeration to say that the most interesting and exciting question since the October revolution of 1917 and the military victory of the revolution, for all our practical and theoretical workers alike, is the question of what the Soviet system is, in what direction it is developing, what are the basic laws of development of this system, and, finally, what relation this first experience of an economy which, so far as its leading links are concerned, has gone beyond the confines of capitalism, bears to our old, familiar ideas about socialism. The last question should more correctly be put like this: how, after eight years of the dictatorship of the proletariat in an enormous country, should we look upon our former ideas about socialism?

Not a single economic formation can develop in a pure form, on the basis merely of the immanent laws which are inherent to the particular formation. This would be in contradiction to the very idea of development. The development of any economic form means its ousting of other economic forms, the subordination of these forms to the new form, and their gradual elimination. Under these conditions the diagonal of the parallelogram of forces operating in the economic field can never follow the line of the internal laws of the dominant form but will always deviate from this line under the influence of the resistant forces. And these resistant forces, that is, the forces of the other economic forms included in the given economic system, operate along the line of their own laws of development. These laws of development of the old forms are now changed simply into laws of resistance to the new form.

But analysis of an economic system in which two fundamental laws are operating is extremely difficult in a case where the historically progressive form is not the one which is already predominant in the economy but one which is only in course of becoming the predominant form. And that is just the position in our Soviet economic system. The difficulty, as will be explained in more detail later on, arises here in the analysis of the role of the third economic force—which in this particular case is petty

production. During the civil war the cadres of socialism, that is, the working class and the rural poor, carried on a struggle for the masses of the middle peasantry against the cadres of capitalism, that is, the bourgeois-landlord, kulak, bureaucrat elements. In this struggle the middle peasantry, while constantly vacillating, in general came down on the side of the working class. This struggle has now been transferred to the economic field, in which petty production serves as the nutrient base both for capitalist and for socialist accumulation. The question whether disintegrating petty production is being transformed predominantly in a capitalist direction, separating into wage-workers on one side and kulak economy on the other, or is being taken more and more into the periphery of the state economy, is one of very great importance for the fate of socialism in a peasant country. In the first case not only will the rate of development be slower but the methods of struggle by the socialist form against the capitalist form will be different; the whole economic structure will present a considerably different appearance. I do not speak of the important political consequences which will inevitably be associated with advance in accordance with this variant.

This difficulty of giving a theoretical analysis of the trends of development in the Soviet economy is not the only one that confronts us. There are sceptics who consider it in general hopeless to try to analyse the Soviet economy theoretically, since this economy has existed for only eight years and therefore cannot offer sufficient concrete material for theoretical generalization. Among proofs of this there often figure references to *The Economics of the Transition Period*, by Comrade Bukharin, which was and has remained merely a theory of the Red-Guard period of the social revolution, and objectively could be nothing but that. The example of Marx's *Capital* is also quoted, as something which could appear only after modern capitalism had existed for many decades, and commodity economy for centuries.

I regard it as quite fruitless to divert part of this chapter to formal demonstration of the fact that theoretical analysis of the Soviet economy is possible, after what has been said in the first chapter, on method. This would mean diverting these pages from the task of real proof, which can only consist of actual analysis of the Soviet economic system. Accordingly, I proceed straight to the heart of the matter.

Primitive Accumulation, Capitalist and Socialist

In order to understand the present phase of development of the Soviet economy it is extremely helpful to carry out a systematic comparison between the first steps of socialism and the first steps of the capitalist mode of production. This comparison is most instructive and will greatly assist us in our analysis. Both the similarity and the difference—and the differences are incomparably greater than the similarities—bring out remarkably well the special features of the Soviet system of economy.

Let us begin with the most important difference, which conditions a number of others.

Capitalist production arises and develops within the womb of feudal society, or of feudal society which has been half disintegrated by commodity economy, many decades before the bourgeois revolutions. This fully applies to the development of merchant capital, as the necessary preliminary stage of capitalist production. It applies also to the first steps of manufacture in England and to the first steps of capitalist machine industry on the Continent. Capitalism was able to pass through its period of primitive accumulation in the age of absolutism in politics and of simple commodity production and feudal-serfdom relations in the economic sphere.

Bourgeois revolutions begin after capitalism has gone far in building up its system in the economic sphere. The bourgeois revolution is only an episode in the process of bourgeois development, which begins long before the revolution and goes on more rapidly after it. The socialist system, on the contrary, begins its chronology with the seizure of power by the proletariat. This follows from the very essence of the socialist economy as a single complex which cannot be built up molecularly within the world of capitalism. While merchant capital could develop in the pores of feudal society, while the first capitalist enterprises could function without coming into irreconcilable contradiction with the existing political structure and property-forms (being, on the contrary, as we shall see below, nourished by their juices), the complex of state socialist production can appear only as a result of a breaking through of the old system all along the line, only as a result of social revolution. This fact is of colossal significance for understanding not only the genesis of socialism, but also the entire

subsequent process of socialist construction. Conversely, insufficient understanding, or forgetting, of the essential nature of socialism has often led and still leads a number of comrades into a purely philistine, sometimes directly reformist conception of the Soviet economy and its paths of development.

For capitalist accumulation to begin, the following prerequisites were needed: (1) a preliminary accumulation of capital in particular hands to an extent sufficient for the application of a higher technique or of a higher degree of division of labour with the same technique; (2) the presence of a body of wage-workers; (3) a sufficient development of the system of commodity economy in general to serve as the base for capitalist commodity production and accumulation.

Regarding the first of these conditions Marx says:

The basis of the production of commodities can admit of production on a large scale in the capitalist form alone. A certain accumulation of capital in the hands of individual producers of commodities forms therefore the necessary preliminary of the specifically capitalist mode of production. We had, therefore, to assume that this occurs during the transition from handicraft to capitalistic industry. It may be called primitive accumulation—because it is the historic basis instead of the historic result of specifically capitalist production. How it itself originates we need not here inquire as yet. It is enough that it forms the starting point.¹

The question arises of how matters stand in this connexion with primitive *socialist* accumulation. Has socialism a pre-history? If so, when does it begin?

As we have seen above, primitive capitalist accumulation could take place on the basis of feudalism, whereas socialist accumulation cannot take place on the basis of capitalism. Consequently, if socialism has a pre-history, this can begin only after the conquest of power by the proletariat. The nationalization of large-scale industry is also the first act of socialist accumulation, that is, the act which concentrates in the hands of the state the minimum resources needed for the organization of socialist leadership of industry. But it is just here that we come up against the other aspect of the question. In socializing large-scale production the proletarian state by that very act changes from the start the system

¹ *Capital*, Vol. I, part 1, p. 640, Stepanov's translation. [English translation, Allen & Unwin, p. 638.]

of ownership of the means of production: it adapts the system of ownership to its future steps in the matter of socialist reconstruction of the whole economy. In other words, the working class acquires by revolution only that which capitalism already possessed in the shape of the institution of private property, without any revolution, on the basis of feudalism.¹ Primitive socialist accumulation, as a period of the creation of the material prerequisites for socialist production in the true sense of the word could begin only with the seizure of power and nationalization.

Capitalist accumulation is accumulation on the basis of production which is economically and technically different from craft production. Capitalist manufacture could show its superiority over the crafts only in so far as it proved itself economically superior to them, in so far as the system of division of labour which was applied in it, and other advantages of large-scale production over small, made it possible to make a product in the 'manufactory' at less cost than under craft conditions. But the organization of manufacture, the construction of the building, the stores of raw material, the expenditure of circulating capital during the process of circulation—all in the absence of the modern system of supplying credit to industry—required the presence of substantial resources, created not in manufacture but before manufacture, created in petty production and plundered from the small producer by merchant capital. To an even greater extent was previously accumulated capital needed for large-scale machine industry to begin to function. Consequently, in order that capitalist production *might be able* to demonstrate its advantages over craft production, in the technical and economic sense, a period of prolonged exploitation of petty production was needed.

In the same way, socialist accumulation in the true sense of the word, that is, accumulation on the basis of a socialist economy which has already developed all its characteristic features and *the advantages peculiar to itself*, can begin only after Soviet economy has passed through the stage of primitive accumulation. Just as for the functioning of manufactories, and still more of factories with machine technique, so also for enabling the complex

¹ I say nothing here about the limitations on the institution of private property in the feudal period. Fundamentally, private property existed then, in spite of these infringements.

of state economy to develop all its economic advantages and to place under itself a new technical basis, a certain minimum of previously accumulated means in the form of natural elements of production is needed.

Here we suddenly come again upon an extremely important structural difference in principle between capitalism and socialism, to which we shall direct our attention when we analyse the conditions of competition between the socialist and capitalist forms of economy. For manufacture to show its superiority to craft production it was not at all necessary for an enormous number of manufactories to be set up all at once. One, two, five manufactories were enough to show their superiority and defeat craft production in the competitive struggle. Consequently, the amount of previously accumulated capital could be quite small in relation to the size of the national economy as a whole. A few enterprises, constituting a leading shock-group on the economic front and representing a new economic order, could begin an offensive without waiting for the whole transition to take place *en masse* and simultaneously. And though concretely, historically, in the period of development of merchant capital, primitive accumulation proceeded so far that at the moment when manufactories were organized there was no shortage of free capital, nevertheless this entire movement bore an unorganized, spontaneous character. This method of advance by the new form was further made possible later on by the export of capital. Capitalist enterprises could arise in petty-bourgeois countries where neither the technical nor the economic prerequisites of a new mode of production existed, because all these prerequisites were there potentially and required only an external stimulus by progressive foreign capital.¹

In contrast with this, no partial or insignificant amount of socialist accumulation is capable of solving the basic problem of socialist organization of production. In particular, in so far as we are concerned with the economy of the Soviet Union, here we need an accumulation which (1) enables the state economy to achieve the level of present-day capitalist technique, wherever it is not possible to go over gradually to a new technical basis;

¹ Below we see that while the very structure of capitalism and the method by which it subjects petty production make possible the export of capital, the socialist form can spread only through exporting the proletarian revolution.

(2) makes it possible to change the technical basis of state economy, to organize labour scientifically, to plan the administration of the whole complex of state economy—measures impossible without large emergency stocks and planned reserves; (3) ensures an advance by the entire complex and not only particular parts of it, because the inter-dependence of the parts of the whole complex in motion, like the links of a chain, makes quite impossible an uncoordinated advance by the method of capitalist guerrilla warfare, individual initiative and competition. Thus we establish the fact that nationalization of what has been accumulated by capitalism not only does not conclude the period of socialist primary accumulation but, on the contrary, begins it. The period of this accumulation can develop only after the conquest of power by the proletariat and the initial act of accumulation—the socialization of the main branches of the economy. But if this is the case is it possible and correct in general to speak of primitive socialist accumulation,¹ by analogy with primitive capitalist accumulation? After all, the latter began before capitalist production, whereas the former has to take place simultaneously with the beginning of the transition to socialist production and with accumulation in the socialist complex itself. We propose that this term be retained, in a conditional sense, because although primitive socialist accumulation is chronologically interwoven with socialist production and to some extent with socialist accumulation on a basis of production, nevertheless the economic essence of this process in relation to socialist production is the same as that which primitive capitalist accumulation bears to capitalist production.² And even if this term were admitted to be unfortunate, it would have to be replaced by another, since the material essence of what it designates does not cease to exist when its name is no longer used. On the contrary, the distinction of primitive socialist accumulation from socialist accumulation itself is of very great significance in principle. We shall see below

¹ The term 'primitive socialist accumulation' was originated by one of our most outstanding economists, Comrade V. M. Smirnov. We do not specially insist on this term. It could be replaced by 'preliminary socialist accumulation', and in fact we sometimes use this expression as a synonym for the same idea.

² It must not be forgotten, either, that although primitive capitalist accumulation on the basis of commercial capitalism precedes capitalist production, yet a whole period of primitive accumulation is embraced also by the initial period of the development of capitalist industry.

that this distinction is of great importance for our economic policy just because the mixing-up of these two processes brings in its train gross errors in the sphere of the practical leadership of the economy.

By *socialist* accumulation we mean the addition to the functioning means of production of a surplus product which has been created within the constituted socialist economy and which does not find its way into supplementary distribution among the agents of socialist production and the socialist state, but serves for expanded reproduction. *Primitive socialist* accumulation, on the other hand, means accumulation in the hands of the state of material resources mainly or partly from sources lying outside the complex of state economy. This accumulation must play an extremely important part in a backward peasant country, hastening to a very great extent the arrival of the moment when the technical and scientific reconstruction of the state economy begins and when this economy at last achieves purely economic superiority over capitalism. It is true that in this period accumulation takes place also on the production-base of state economy. In the first place, however, this accumulation also has the character of preliminary accumulation of the means for a really socialist economy and is subordinated to this purpose. Secondly, accumulation of the former kind, that is, at the expense of the non-state milieu, greatly predominates in this period. For this reason we should call this entire stage the period of primitive or preliminary socialist accumulation. This period has its special features and its special laws. The basic law of our Soviet economy, which is now passing through this stage, is called precisely the law of primitive or preliminary socialist accumulation. To this law are subordinated all the basic processes of economic life within the range of the state economy. This law, moreover, changes and partly does away with the law of value and all the laws of commodity and capitalist commodity economy, in so far as they appear or can appear in our system of economy. Consequently, *not only can we speak of primitive socialist accumulation, we can understand nothing of the essence of Soviet economy if we do not discover the central role which is played in this economy by the law of primitive socialist accumulation, which determines, in conflict with the law of value, both the distribution of means of production in the economy and the distribution of labour power, and also the amount of the*

country's surplus product which is alienated for expanded socialist reproduction.

Let us now examine systematically the main methods of primitive capitalist accumulation and compare them, so far as possible, with the analogous or closely-related methods and processes of primitive socialist accumulation. We shall take for purposes of comparison not only the period preceding capitalist production but also the epoch of the first steps of capitalist production, because this primitive accumulation, as accumulation from outside the range of capitalist production, was also carried on, under very varied forms, after the appearance of capitalist enterprises.

Let us begin with the plundering of non-capitalist forms of economy. In essence the whole period of the existence of merchant capital, from the moment when the craftsman's work for the customer and the local market gave place to work for distant markets and when the buyer-up [putter-out] became a necessary agent of production, can be regarded as a period of primitive accumulation, as a period of systematic plundering of petty production.

Another form of plundering which was of very great importance was the colonial policy of the world-trading countries. We have in mind here not the plundering which is connected with the exchange of a small quantity of labour for a larger quantity on the base of 'normal' trade, but plundering in the form of taxes on the natives, seizure of their property, their cattle and land, their stores of precious metals, the conversion of conquered people into slaves, the infinitely varied system of crude cheating, and so on. To this category also belong all methods of compulsion and plundering in relation to the peasant population of the metropolitan countries. The robbery of small peasant production in the interests of primitive accumulation assumed many different forms. The celebrated 'enclosure movement', to which Marx devoted such brilliant pages of the first volume of *Capital*, was not the typical method of primitive accumulation for all countries. The most typical methods were, first, plundering of the serf peasants by their lords and sharing of the plunder with merchant capital, and, second, crushing taxation of the peasantry by the state and transformation of part of the means so obtained into capital.

When the landlord's estate began to be transformed from a

purely natural economy into a money or semi-money economy, when the landlords thereby promoted trade on a large scale, and when the growth in their demands stimulated an increase in extortion from the peasantry, they entered into a certain kind of unconscious co-operation with merchant capital. Everything that was plundered in the countryside, except what was consumed on the spot, was sold to merchants. In return the merchants supplied the landlords with the products of urban or foreign industry which served to satisfy their growing and increasingly refined demands. Merchant capital sold these products at a profit of 100 per cent. and more. Then it lent money to the ruined gentlefolk at usurious rates of interest. As a result, the feudal lords were in this period in a certain sense agents for merchant capital, transmission pumps for the plundering of small-scale rural production in the interests of primitive capitalist accumulation. Being 'higher class' in comparison with the third estate, legally speaking, they co-operated economically with the merchants, who took not the greater but the smaller share in the matter of extortion from the peasantry.

The other form in which petty production was plundered was state taxes. Out of their receipts from taxation the absolute states encouraged the development of manufacture, giving subsidies to merchants who had become industrialists or to nobles who had transformed themselves into manufacturers. This support was rendered especially to manufactories which in one way or another served to supply the army: textile mills, arms works, metallurgical enterprises, and so on. This kind of transfer of resources from the channels of petty production through the state machine to large-scale production, especially to heavy industry, takes place also in a much later period.

On the role of the state, and in particular on the role of state pressure in the period of primitive accumulation, Marx wrote: 'These methods depend in part on brute force, e.g., the colonial system. But they all employ the power of the state, the concentrated and organized force of society, to hasten, hothouse fashion, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition. Force is the midwife of every old society pregnant with a new one. It is itself an economic power.'¹

¹ *Capital*, Vol. I, part 1, p. 775, Stepanov's translation. [English translation, Allen and Unwin, p. 776.]

This force played a very big role also in the formation of national states as arenas for the activity of merchant capital. The profound class analysis, full of concrete historical truth, to which M. N. Pokrovsky subjected the policy of the Muscovite tsars, evokes a clear picture of this aspect of the period under consideration. The conquest of the necessary territory, trade routes and so on, is also nothing else but a link in the chain of primitive capitalist accumulation, because without accumulation of the necessary territorial prerequisites the development of merchant capital and its transition to industrial capital could not be carried through successfully. From this standpoint the peasant paid tribute to the Moloch of primitive accumulation not only when part of the rent he paid passed through the hands of the lord into those of the merchant, not only when part of the taxes he paid passed via the state to the manufacturer, but also when he gave the blood of his sons for the winning of new trade routes and the conquest of new lands.

An important role in the process of primitive accumulation is played by the system of state loans, under which there takes place the transfer of part of the annual income of the small producers, in the form of interest payments, into the hands of the capitalist creditors of the state which has contracted the loan. In this connexion Marx says:

The public debt becomes one of the most powerful levers of primitive accumulation. As with the stroke of an enchanter's wand, it endows barren money with the power of breeding and thus turns it into capital, without the necessity of its exposing itself to the troubles and risks inseparable from its employment in industry or even in usury. The state creditors actually give nothing away, for the sum lent is transformed into public bonds, easily negotiable, which go on functioning in their hands just as so much hard cash would. But further, apart from the class of lazy annuitants thus created, and from the improvised wealth of the financiers, middlemen between the government and the nation—as also apart from the tax-farmers, merchants and private manufacturers, to whom a good part of every national loan renders the service of a capital fallen from heaven—the national debt has given rise to joint-stock companies, to dealings in negotiable effects of all kinds, and to agiotage, in a word to stock-exchange gambling and the modern bankocracy.¹

¹ *Capital*, Vol. I, part 1, p. 779. [English translation, Allen and Unwin, pp. 779-80.]

Let us now dwell upon the methods of primitive accumulation which we have enumerated, based mainly on plundering of small-scale production and non-economic pressure upon it, and let us see how matters stand in this connexion in the period of primitive socialist accumulation.

As regard colonial plundering, a socialist state, carrying out a policy of equality between nationalities and voluntary entry by them into one kind or another of union of nations, repudiates on principle all the forcible methods of capital in this sphere. This source of primitive accumulation is closed to it from the very start and for ever.

It is quite different in the case of the alienation in favour of socialism of part of the surplus product of all the pre-socialist economic forms. Taxation of the non-socialist forms not only must inevitably take place in the period of primitive socialist accumulation, it must inevitably play a very great, a directly decisive role in peasant countries such as the Soviet Union. We must consider this point in some detail.

From the foregoing we have seen that capitalist production was able to begin to function and develop further only by relying on the resources obtained from petty production. The transition of society from the petty-bourgeois system of production to the capitalist could not have been accomplished without preliminary accumulation at the expense of petty production, and would thereafter have proceeded at a snail's pace if additional accumulation at the expense of petty production had not continued alongside capitalist accumulation at the expense of the exploited labour-power of the proletariat. The very transition presumes, as a system, an exchange of values between large-scale and petty production under which the latter gives more to the former than it receives. In the period of primitive socialist accumulation the state economy cannot get by without alienating part of the surplus product of the peasantry and the handicraftsmen, without making deductions from capitalist accumulation for the benefit of socialist accumulation. We do not know in how great a condition of ruin other countries in which the dictatorship of the proletariat is going to triumph will emerge from civil war. But a country like the U.S.S.R., with its ruined and in general rather backward economy, must pass through a period of primitive accumulation in which the sources provided by pre-socialist forms of economy

are drawn upon very freely. It must not be forgotten that the period of primitive socialist accumulation is the most critical period in the life of the socialist state after the end of the civil war. In this period the socialist system is not yet in a condition to develop all its organic advantages, but it inevitably abolishes at the same time a number of the economic advantages characteristic of a developed capitalist system. How to pass as quickly as possible through this period, how to reach as quickly as possible the moment when the socialist system will develop all its natural advantages over capitalism, is a question of life and death for the socialist state. At any rate, that is the problem before the U.S.S.R. today, and that will perhaps be the problem for a certain time for a number of European countries in which the proletariat will come to power. Under such conditions, to count only upon accumulation within the socialist field would mean jeopardizing the very existence of the socialist economy, or prolonging endlessly the period of preliminary accumulation, the length which, however, does not depend on the free will of the proletariat. In the concrete part of this work, which will be devoted to the industry and agriculture of the U.S.S.R., we shall cite numerical calculations as to how long we should expect the restoration of our industry even to its pre-war levels to take if we were to rely only on the surplus product of industry itself. In any case the idea that socialist economy can develop on its own, without touching the resources of petty-bourgeois (including peasant) economy is undoubtedly a reactionary petty-bourgeois utopia. The task of the socialist state consists here not in taking from the petty-bourgeois producers less than capitalism took, but in taking more *from the still larger* incomes which will be secured to the petty producer by the rationalization of the whole economy, including petty production, on the basis of industrializing the country and intensifying agriculture.

Another source of socialist accumulation can be taxation of private capitalist profit, that is, systematic deductions from capitalist accumulation. The nature of this kind of resource can be various, but, of course, in the last analysis it is here again a matter of accumulation at the expense of the labour of the workers on the one hand and of the peasants on the other. When the state imposes heavy taxes on private capitalist enterprises it is restoring to the fund of socialist accumulation part of the surplus value

which would have been received as surplus product by the state if it had, *all other conditions being equal*, been conducting these enterprises itself. Here the capitalists play in relation to the socialist state the same role which was played by the feudal landlords in relation to the knights of primitive accumulation. In just the same way the taxation of the class of rural kulaks who employ hired labour means in the last analysis accumulation at the expense of the semi-proletarian labour of the countryside. Conversely, in so far as the socialist state taxes traders, buyers-up, capitalists, and kulaks who obtain part of their income from the peasantry who carry on *independent economies* we have here accumulation at the expense of the peasant economy, the persons mentioned constituting, as in the previous case, both accumulators of capitalist accumulation and, from another point of view, the intermediate stage of one of the processes of socialist accumulation.¹

As regards state loans, which form a very important channel of primitive capitalist accumulation, their role is different in the period of socialist accumulation. Here one must distinguish between two loan systems which differ in principle. Our semi-compulsory loans, such as the first and second lottery loans, belong rather to the category of accumulation from taxation sources, that is, accumulation by methods of non-economic compulsion. It is quite a different matter with credit operations of the type of normal loans, carried out according to the bourgeois system. Such loans, let us say, as the loan from the British capitalists, for 30 years at 7 per cent., cannot be treated directly as sources of socialist accumulation, because the Soviet state will have to pay interest on the loan out of its revenues and thereby will function as an intermediate stage in capitalist accumulation and capitalist exploitation of the working masses of the Soviet Union by the foreign bourgeoisie. But on the other hand these loans can serve as a powerful stimulus to socialist accumulation, contributing thereby a larger percentage to the socialist accumulation fund than they contribute to the capitalist accumulation fund. We touch upon these loans in another connexion when we analyse the economic significance of external loans and concessions under the commodity-socialist system of economy.

¹ Below, where the context makes my meaning clear, I speak for brevity's sake of socialist accumulation instead of primitive socialist accumulation.

Before we pass to the form of primitive accumulation on an economic basis we must say more about a source of state revenue, and thereby under the Soviet system a source of primitive accumulation, which more correctly should be grouped with taxes, but which is externally and formally not as a rule so grouped in theoretical economic writing. I mean the issue of paper money. In my pamphlets *Paper Money in the Epoch of the Dictatorship of the Proletariat* and *The Causes of the Fall in the Rate of Exchange of Our Rouble* I showed that the issue of paper money under a system of declining rates of exchange is one of the forms of taxation. Here it is only necessary to note that the issue of paper money is also one of the methods of primitive accumulation. In the corresponding period in the history of the bourgeois system of economy, the issue of paper money did not play the role of an auxiliary factor in capitalist accumulation. Debasement of the coinage, which was committed by the feudal princes and our tsars, and the issue of paper money in the subsequent period constituted taxation by the state of the whole population, including in part taxation of the bourgeoisie's money capital. When the state is at the same time an organ which rules the country and the master of a huge economic complex, issue of paper money directly serves as a channel for socialist accumulation. This accumulation is carried out at the expense either of the incomes of the petty-bourgeois and capitalist elements or of reduced wages of the state's workers and office employees. How substantial this source is may be seen from the fact that from the time the Soviet power was organized until the final introduction of a stable currency the issue of paper money, including losses by the State itself, amounted to about 1,800 million gold roubles. Paper money served as an important financial resource also for the Hungarian Soviet Government during its four-months' existence.

Let us now pass to the methods of primitive accumulation of capital by way of economic channels. Here we must distinguish between accumulation which is carried out in production itself, at the expense of the surplus value created in enterprises belonging to the proletariat, and, on the other hand, the exchange of a smaller quantity of labour by one system of economy or one country for a larger quantity of labour furnished by another system of economy or another country.

As before, let us examine the methods of primitive accumulation on an economic basis first of all for the period of the capitalist mode of production.

Let us begin with the second of our subdivisions, that is, what we now, in our economy, call price policy. We find the following very important passage on this theme in Volume III of *Capital*, a passage of which insufficient use has been made in Marxist writing for the theoretical analysis both of colonial exploitation and of the exploitation of pre-capitalist forms of production generally: 'The favoured country recovers more labour in exchange for less labour, although this difference, this excess, is pocketed, as in any exchange between labour and capital, by a certain class. Since the rate of profit is higher, therefore, because it is generally higher in a colonial country, it may, provided natural conditions are favourable, go hand in hand with low commodity prices'.¹

If we take any capitalist country in Europe—say, Great Britain—and, on the other hand, take a number of its colonies or semi-colonies, connected with Britain by trade relations, then when we analyse the prices of what Britain imports from the colonies and what it exports to them the figures will always show an inequality in the expenditure of labour on the two masses of goods exchanged as equivalents. The clearest and crudest example of this is provided by the exchange which a savage makes of his gold ornaments for a piece of beautiful fabric offered by a merchant from Europe. But under 'normal' trade with the colonies, too, the phenomenon noted by Marx continues to exist, because a country with a low level of technique expends, on the average, more labour on one commodity unit than a country with a higher level of technique. Linked with this is the low standard of living of the working population in the colonies or the economically backward countries. Given the same level of technique, an enterprise belonging to a certain branch of production will make extra profit in a colony as compared with a similar enterprise in a metropolitan country. This is very often observed, all other conditions being equal, and it is possible only because, on the basis of the law of value regulating prices within the given country, the value and price of labour power are lower than in the metropolitan country, all along the labour front, as a result of which

¹ *Capital*, Vol. III, part 1, p. 219, Stepanov's translation. [F.L.P.H. English edition, p. 233.]

the country with a higher technique and higher wages, and at the same time lower prices, is in more favourable conditions for exchange than a country with a low level of technique, low wages, and higher prices. The higher profit on capital invested in the colonies is based on the utilization of this basic difference between the situation of the colony and that of the metropolitan country.

From this standpoint the surplus profit on capital invested in the colonies is essentially profit arising from the transition from one system of technique to another, from one system of economy to another, higher system. This profit is in principle not in any way different from the surplus profit obtained by the capitalist who is the first to introduce into a certain line of production a new machine which at once reduces his costs of production. But as capital is generally a movement, as transition from one system of technique to another, from one economic formation to another (for example, from pre-capitalist to capitalist) never ceases, the exploitation of this transition 'by a certain class' is not accidental but is a constant phenomenon throughout the whole period of capitalist development. This tax which the capitalist class levies on the economic development of society is paid both by the petty-bourgeois producers of the metropolitan countries and by the colonial and semi-colonial countries, taking their economy as a whole.

What interests us here is only the period of the beginning of capitalist development. It has its own special features, which give it a certain resemblance to the period of monopoly capitalism. We must distinguish three periods in the history of the exploitation by capitalism of pre-capitalist forms on an economic basis. There was a period of youthful capitalism, with theoretically free competition but *de facto monopoly*, in so far as the first enterprises established by capital used the price-level established on the basis of craft production, which was quite unable to engage in extensive competition. Large-scale amounts of capital, and capitalist enterprises to an even greater extent, were *ipso facto* monopolised in the hands of a few. The same thing was true of merchant capital, in so far as the inadequacy of capital, the amount of risk and the resultant insurance charges, and, finally, the existence in these conditions of monopoly organizations of foreign trade, such as the East India Company, made colonial exploitation on the basis of exchange likewise a monopoly of very small groups of capitalists.

After this period follows a period of free competition. It does not suppress the forms of exploitation of the petty producer and those methods of accumulation which we are considering here, but places them, within definite limits, under conditions of a certain equilibrium. Finally comes a third period, the period of monopoly capitalism. In this period, thanks to the establishment of a system of national-capitalist organisms, fenced off by tariff barriers from foreign competition, exploitation of the petty producers within the country on the basis of the monopoly prices of the trusts is enlarged once more, and again, as in the period of primitive accumulation, is made the privilege of a close group of capitalist sharks. As regards the corresponding exploitation of the colonies, here we see, on the one hand, a tendency on the part of each large capitalist colonial power to extend to the colonies its monopolization of the internal market and to defend this right by force of arms. On the other hand, thanks to the export of capital to the colonies, surplus profit from the colonies more and more takes the form of surplus profit from enterprises with the same level of technique but lower wages. This gradual shifting from one kind of exploitation to another leads at the same time to a certain levelling up of the conditions of the colonial economy to those of the metropolitan country, which strengthens the tendency to secure the various internal markets for their particular capitalisms—since the internal market must provide for intensified accumulation that which is lost as a result of the development of industry in the colonies.

Below we shall return to the question of the enormous contribution to understanding the law of socialist accumulation which is provided by the fact that socialism arises historically on the basis of monopoly capitalism, and not of free-competition capitalism. Here we need only mention that primitive capitalist accumulation was based not only on the exploitation of petty production by taxes, not only on feudal exploitation, which was only a phase in capitalist accumulation, but was also masked by a system of market exchange of quasi-equivalents, behind which was hidden the exchange of a smaller for a larger quantity of labour. In this case the peasant and the craftsman are exploited by capital partly in the same way as the workers are exploited who receive as wages, in the form of the market price of their labour-power, only part of the newly-created product of their labour.

After this historical excursion into the realm of primitive capitalist accumulation, let us turn to analysing the corresponding factors in the period of preliminary socialist accumulation.

The difference from the period of primitive capitalist accumulation here consists, first, in the fact that socialist accumulation has to take place at the expense not only of the surplus product of petty production but also of the surplus value of capitalist economic forms. Secondly, the difference here is conditioned by the fact that the state economy of the proletariat arises historically on the back of monopoly capitalism and therefore has at its disposal means of regulating the whole economy and of redistributing the national income economically which were not available to capitalism at the dawn of its history.

Let us begin with railway charges. This powerful lever of economic regulation, which is wholly in the hands of the state power of the U.S.S.R., is used very little in the interests of regulation and is not used at all as an instrument of primitive socialist accumulation. A system of favourable charges for certain freights (coal, petrol, salt) serves as a means of redistributing state resources rather than as an indirect way of taxing the non-socialist sector of the economy. Of just as little importance are the small privileges which are accorded to state and co-operative dispatches of freight as compared with private ones. Use of this lever of primitive accumulation is still completely something for the future. Only when transport ceases to be a source of deficit and becomes a profitable undertaking will there become possible a corresponding reconstruction of railway charges, based on the distinction between state and private freights, so as to effect a systematic taxation of private producers and traders, and in this way to cut off part of the profit made by private capital. There is no need to prove that this will be one of those blows at the law of value which make the economy of the period of socialist accumulation a period of gradual change, restricting and partly abolishing this law.¹

¹ Here, as in all the following exposition, I speak of the law of value as the spontaneous regulator under the commodity and commodity-capitalist system of production, that is, of the historically-transient *form* assumed in exchange society by the regulation of the economy by labour-expenditure. I do *not* speak of this regulation *in itself*. This regulation will exist under planned economy, too, but will be effected in another way, that is, on the basis of direct calculation of labour-time.

A second powerful lever of primitive accumulation is the monopoly of the banking system. In the period of primitive capitalist accumulation usurious credit was a means whereby the national income was redistributed from the hands of the feudalists into those of the bourgeoisie, which was rising and becoming stronger. Credit as an instrument for mobilizing the free resources of society and distributing them by the channel of expanded reproduction was at that time either non-existent or existed only in embryo. Contrariwise, in the period of preliminary socialist accumulation which the U.S.S.R. economy is passing through, that is, in its first stages, the state's credit system operates more in the field of redistributing the free resources of the country than in that of redistributing the national income. This may seem untrue, in so far as the interest collected by the banks for loans—if the period of the rapidly falling rate of exchange be left out of account—is very large in comparison with normal capitalist conditions, whereas deposit operations are fairly inconsiderable. But we must not for one moment forget the economic source which really makes possible the *chervonets* issue and the loan operations by the bank out of the sources of this issue. If the bank issues 60 million *chervontsi*, with no variations in the rate of exchange, this means, economically, that by one means or another the country's commodity values to that amount have been placed at the disposal of the State Bank for different periods. If we consider that this 'loan from circulation' is drawn from the state economy and from private economy, proportionally, let us say, to the share of each in the monetary circulation of the country, while the resources of this loan go to financing almost exclusively state and co-operative industry and trade, then we see swiftly passing before our eyes a process of socialist accumulation. We will attempt a detailed theoretical and numerical analysis of this process, as also of the action of the whole credit system upon the country's economy, in a special chapter of our second volume.

As regards the question of redistributing *the national income* through the agency of the credit system, here the main task still lies in the future. If the State Bank charges a high rate of interest to state enterprises which receive long-term or short-term loans, what we have here is a process, not of accumulation in the state sector, but rather of redistributing resources within the state

sector. Redistribution from private economy into the socialist sector can occur directly only when the resources of private economy, accumulated by the banking system through deposits, are redistributed through private economy by means of loans at a higher rate of interest, and the difference between the sums paid into the bank as deposits and the sum received by the bank as loan-interest and other forms of payment for its services goes into the socialist accumulation fund. We have the same situation if state resources are lent at interest as credits to private economy. The latter operation, however, with the general shortage of capital in the country and especially in the state sector itself, while being formally a source of accumulation, is at the present time quite unprofitable, because it is transformed at the present stage into an obvious instrument of capitalist accumulation at the expense of state credit. For this operation can take place only at the expense of the more advantageous operation of advancing credits to state enterprises, because credits to the latter realize not only bank interest but also accumulation of capital in state enterprises on a basis of production. Under these conditions credits to private trade and industry which are capable, let us say, of paying 10 per cent. annually to the bank, are less profitable than credits to state industry which, let us assume, are capable of paying the bank 8 per cent. on loan capital but themselves obtain from production 15 per cent. on this loan capital. In this case the State Bank, as such, would find it more profitable to advance credits to private industry and trade; but from the standpoint of the state complex as a whole and of socialist accumulation in the whole complex, and not only in the State Bank's part of it, this operation is clearly one which incurs loss. This explains the fact that at the present moment the State Bank hardly grants any credits to private trade and industry, in spite of their readiness to pay more than state enterprises, but grants them almost exclusively to the latter. From the standpoint of the tasks of socialist accumulation this policy is the only correct one.

In the future, however, the situation in this field is bound to change, and a moment may come when the granting of credits to private economy may become one of the most important instruments for redistributing the national income in the interests of the state economy and one of the chief economic means of subjecting its regulatory centres to the state economy. The credit

system of the U.S.S.R. can play an especially big role in this connexion with the development of long-term agricultural credit, in particular, if we succeed in obtaining large-scale loans abroad and the State Bank functions as distributor of these loans, transfusing foreign resources into the economic organism of the U.S.S.R.

From what has been said we thus see that our entire credit policy at the present time is subordinated and cannot but be subordinated to the law of primitive socialist accumulation.

Let us now turn our attention to trade, both internal and external. In the period of primitive capitalist accumulation both kinds of trade serve as instruments of this accumulation. Historically, the earliest form of exploitation is that of petty craft production by merchant capital. This kind of exploitation, through trade and through the fulfilment of certain productive functions (supply of material to the craftsmen on credit, and so on), has nothing in common with trade in the products produced by workers in capitalist enterprises—nothing at all. In the former case the trader and buyer-up [putter-out] who spends 100 units on purchasing goods produced on a craft basis, and obtains for them 150 units on the pretext of costs of transport and so on, receives 50 units *from the producer's income*. It is quite a different matter when merchant capital operates with goods provided by capitalist production. Here the average trading profit is only a deduction from the surplus value created in the process of capitalist production. In this case the *extra* profit of trade, arising otherwise than from capitalist production, can be obtained only through exchange of products by the capitalist system with a non-capitalist milieu, and at the expense of this milieu. This extra profit can arise in the absence of adequate competition, particularly when an especially favourable situation of certain groups of merchant capital makes trade itself (for instance, when there is an extreme poverty of the country in capital generally) practically a kind of monopoly in the hands of these groups. When the development of commodity exchange in a country in which the main role is played by products of petty-bourgeois production proceeds more rapidly than the development of the trading network and the process of accumulation of merchant capital, the latter can intensify the exploitation of the non-capitalist producers to a greater extent than if there were a surplus of merchant capital and

adequate competition. For the period of primitive accumulation, with its *de facto* monopoly both of merchant capital and of young industrial capital, there is no meaning in the theoretical question whether one should regard the surplus profit which sticks to the pocket of merchant capital under these monopoly conditions as profit of productive capital merely realized in trade, or as profit of merchant capital in the strict sense, in so far as it is here a matter of the plundering not of workers but of petty producers. It is only necessary to make a strict distinction between profit of this kind and the normal profit of merchant capital in developed capitalist society, all the more so because in an actual enterprise it is completely merged with every other kind and no accountant can separate it. The distinction between the two is, however, of enormous importance, because the fact that there are two completely distinct sources of this profit, and thus an exchange of material between two distinct economic systems, is of great importance from the standpoint of principle in analysing the sources of primitive socialist accumulation.

Let us turn now to exchange in the system which exists in the U.S.S.R., and more particularly in internal trade. Here we have to distinguish: (1) exchange within the sector of the state economy itself; (2) exchange within private economy; (3) exchange between the state sector and the private sector.

As regards the first division there can, of course, be no positive tasks for socialist accumulation there. The economics of exchange consist in this sphere merely in exchanging economically, in keeping down the costs of the circulation process. These costs are a direct deduction from the surplus product of state economy, and in cases when private middlemen participate in exchange between state enterprises what happens is not only a deduction from the socialist accumulation fund but also an increment to the fund of 'secondary' capitalist accumulation. As the gods of Epicurus had their homes in the pores of the universe, so private middlemen, in the first period of the emergence of the state trusts on to the free market, tried to seat themselves not only in the channels of private trade but also in the nooks and crannies separating one state enterprise from another, and here they collected 'costs of circulation'. Rationalization of state trade means systematic elimination of these leeches of capitalist accumulation from the socialist sector, and it leads not only to a reduction in

the circulation costs of the state sector but also to the organization of circulation itself by the state sector's own forces.

As regards the second division, that is, exchange within private economy, there, however, socialist accumulation is possible. Of the non-economic method of accumulation from this source, that is, of taxes on trade in the products of the private sector, we have already spoken. Accumulation of the other kind, that is, on the basis of trade-exchange, is not only possible, it already occurs to some extent now and will doubtless increase in the future.¹ As an example of this kind of accumulation we may take, for example, purchase from the peasants of grain and food products generally by *Khleboprodukt*² and the sale of this produce to private consumers in the urban markets. The merchant's profit obtained in this way is essentially a deduction from the income of the producers who sell to a state organ in order to realize their goods. When the organs of state and co-operative trade realize through private consumers the products not only of peasants but also of artisans, craftsmen and private entrepreneurs, and receive profit from doing so, this part of their profit is one of the sources of socialist accumulation being examined by us. The struggle of state and co-operative trade against private trade in this sector of exchange faces, from the standpoint of socialist accumulation, positive, not negative, tasks. Here accumulation takes place (at present, unfortunately, only on a small scale) out of the fund of one system of economy into that of the other. What is taken from private trade, all other conditions being equal, is acquired, in one way or another, for the fund of the state economy. I say 'all other conditions being equal' because it is possible to adopt a trade policy here which is in the interests, not of socialist accumulation, but of the petty-bourgeois producers, since it aims to reduce the deductions from their incomes. Whether such a policy is expedient depends on which at the given moment is more important for the state economy: cheapening of goods being sold and elimination of private capital, or accumulation in the sphere of circulation. Economically such a policy involves, without doubt, a reduction in the socialist accumulation fund and a present to private pro-

¹ Increase in railway tariffs on freight belonging to private capital, realized within private economy, belongs to the category of accumulation from this source.

² [All-Russia Joint Stock Company for the Sale of Grain and Agricultural Products.]

duction—a *present which is all the more costly for state economy the poorer this economy is in capital and the less convenient it is for it to employ in trade part of that capital which is inadequate for production itself, instead of intensifying the mobilization of the resources of the petty producers themselves in order to develop co-operative trade.* Moreover, at the present stage state trade is carried on in a less businesslike way than private trade, and the current need is for the state trading organizations to reduce their costs at least to the level of private trade. But here it is important for us to pose the whole problem in a theoretically correct way, because it is not a matter of the policy of the passing moment but of understanding the fundamental processes of the entire period of socialist development. We shall see below what tremendous difficulties stand in the way of state trade's competing with private capital and how these difficulties rest upon the basic problems of socialist construction in general. We must mention at this point only that, as a result of the country's extreme poverty in capital, and given the circumstances of a fairly rapid growth of commodity-exchange in the country, merchant's profit attains huge dimensions, which recall the situation in the period of primitive capitalist accumulation. Under these conditions this sector of accumulation is of extreme significance: for the successes of private capital very powerfully hinder the flow of resources from the petty-bourgeois milieu into the socialist accumulation fund and eat up part of the surplus product of the state economy itself.

The third sub-division, that is, exchange between state economy and private economy, is the point where socialist accumulation faces both purely negative tasks, as with exchange within its own circle, and also positive ones, that is, nourishment of the state economy at the expense of the non-socialist milieu. From this angle we must consider the realization of the products of state industry outside the socialist sector separately from the realization of the products of private economy within the state sector.

Let us begin with the first process, that is, the movement of the mass of commodities produced by state industry into the non-socialist milieu. The tasks here, from the standpoint of socialist accumulation, are both negative: to reduce the costs of circulation of the state economy's own organs, that is, in plain words, to trade with the least possible expenditure on the trading apparatus; and

to eliminate private trade from the whole of the road which a commodity produced by the trusts has to cover, from the factory to the final link, that is, the consumer.

The first of these tasks is a matter of improving the organization within the system of state economy itself. Contrariwise, the second task is of very much greater importance, because it is part of the struggle between two mutually hostile systems for the surplus product of the state economy. Here we find the enemy almost in our own home. We must mention at this point the difference of principle which exists in the mutual relations, on the one hand, between merchant and industrial capital in the epoch of primitive *capitalist* accumulation, and on the other, between private merchant capital and state industry in the epoch of primitive *socialist* accumulation. If in the period of capitalist accumulation merchant capital collects from private productive capital most of the surplus value created in industry, this is only a matter of a different distribution of surplus value *within one and the same system of economy*. What today is accumulated to excess by merchant capital from the surplus value of industrial capital is returned tomorrow to industry; the passing of the excess capital of trade into industry is an uninterrupted process which has gone on from the very beginning of the rise of capitalist production. It is quite a different matter when industry fundamentally belongs to one system and the trading network belongs to another, hostile system, as in the case expounded. Then the accumulation of private merchant capital is a direct and irrevocable deduction from the surplus product created by the workers of state industry. Supposing, let us say, the annual total of the new commodity values created in state industry and passing through commodity circulation, is equal, in terms of the wholesale prices of the trusts, to 1 milliard, and this mass of commodities is sold retail at 1½ milliard, then 500 million is a direct deduction for the benefit of the trading network from the surplus product of industry. If four-fifths of this, or 400 million, is taken by the private trading network, this is a very harmful leak from the source of socialist accumulation, and not only accumulation but even simple reproduction in the system of the state economy. Here we have expropriation by private capital, not of the surplus product of petty production on the basis of which capitalism develops historically and which it never ceases to exploit thereafter, but of the surplus product of socialist

industry, a phenomenon hitherto unknown to economic history. The struggle against private capital in this sector is for the state economy a struggle against the wastage of values it has itself created. For the struggle against private capital to move to this particular section is quite correct, as it is quite correct to pass from the solving of easier tasks to the solving of more difficult ones, that is, to the mastering of wholesale and wholesale-and-retail trade in the products of state industry.

Thus, in the matter of mastering the process of exchanging its own products the state economy is solving for itself a task of a negative kind: not to give to private capital what essentially belongs to the socialist sector itself and constitutes its own fund, created on its own production-base.

It is quite a different matter with the movement of values from private economy into the state economic sector. Here the struggle of the organs of state trade against private capital is to a considerable extent a struggle for the surplus product of private economy. When, for example, the procurement of raw material for industry on the peasant market is carried out by private capital and the entire road from the producer of the raw material to the trust is barred by private middlemen, the difference between the price paid to the peasant and the trust's selling price is basically a deduction from the income of peasant economy. Contrariwise, if the State organs, say, themselves carry out all the procurement of raw material, everything which is deducted from the income of the peasantry flows into the state economic sector. At the present stage of primitive socialist accumulation the struggle against private capital is both more difficult technically and has less significance than the struggle against the plundering by private capital of the surplus product of the state economy itself. On the other hand success in this latter struggle, that is, ousting of private capital from trade in the products of industry, would undoubtedly intensify the process of transition of private capital into private industry, a process, generally speaking, which is economically advantageous and harmless provided there is a rapid growth in the state economy.

Let us now pass to foreign trade and the system of socialist protectionism (a term of Comrade Trotsky's). The institution of the monopoly of foreign trade is of quite exceptional importance

in the entire system of socialist economy. It is, first, itself one of the organs of socialist accumulation. Secondly, it is one of the most important organs protecting this process of accumulation in all its forms and thereby a pivotal point in the struggle against the law of value of world capitalist economy. Thirdly, this institution is one of the main instruments for regulating the whole economy of the Soviet Union.

For the present we will concern ourselves only with the monopoly of foreign trade as an instrument of socialist accumulation.

As peasant economy goes over more and more to producing commodities, and as the trading links increase between the economy of the U.S.S.R. and world economy, so the size of our exports grows. The products of our industry occupied a smaller place than those of agriculture in the total amount of our exports before the war, and with the restoration of agriculture we must expect, if not a restoration of the old proportions in the kinds of goods we export, at any rate a very great increase in the export of agricultural products as compared with now. All this means an increase in the possibilities of socialist accumulation from the income of peasant economy. The greater the export of rural products the greater is the economic dependence of the countryside on the authority which links peasant economy with the foreign market. The foreign trade monopoly not only makes petty production dependent on the state in the matter of realizing surpluses, but is also an important instrument for obtaining surplus profit on the foreign market. There are certain branches of world trade—platinum, to some extent flax, and so on—in which the state economy of the U.S.S.R. is almost a monopolist.

True, the state monopoly of trade in exported goods does not mean at all that the whole difference between prices on the home market and prices on the external market falls into the hands of Vneshtorg.¹ While, for example, Severoles,² which realizes without any middlemen the products of the timber industry, is possessor of all its surplus product, the state is far from always undertaking the movement of exported goods along all the stages of their journey to the foreign market. If, for example, grain is bought directly from the peasant by Khleboprodukt and sold abroad by Vneshtorg, the entire difference between the purchase

¹ [The People's Commissariat for Foreign Trade.]

² [The North Russia Timber Administration.]

price and the selling price passes through the hands of the state. But where procurement is carried out through representatives of private capital, especially where the state trading organs buy goods for export from private wholesalers, the merchant's profit of the state is very considerably reduced in favour of private capital. On the other hand, where export products are procured and moved by the state trading organs, it by no means follows that (in the example given) Vneshtorg receives the maximum profit. With our very bad and expensive machinery of exchange, quite often all the difference (in percentage often a great deal) between buying and selling prices on the foreign market is taken up by so-called overhead costs, so that net profit amounts to nothing.

But socialist accumulation, especially in its initial period, does not in the least always mean an increase in the productive capital of industry. The creation of a network of organs of trade, like the creation of the entire minimum-necessary superstructure serving state economy and securing the elimination of private capital from decisive positions in the economic struggle, is also socialist accumulation, though in another form. As we shall see below, a narrowly commercial view, influenced by observations of private capital, of the whole process going on within the state economy is a powerful hindrance to understanding the very essence of the socialist form of economy in its first stages and often leads one in practice on to a quite false path. Often people do not see, beyond the imperfections of some apparatus or other, the enormous importance of this apparatus in the whole system of the state economy. And in the given instance the extreme unprofitability, from the commercial standpoint, of a number of our state trading organs is an argument for the need to rationalize this work, and not for the replacement of these organs by private organs which would be 'more profitable'. They would be more profitable if we were to look upon the unprofitability of socialism in its first stages from the standpoint of capitalism, instead of evaluating the 'profitability' of capitalism (in which one must certainly include crises, wars, and so on) from the socialist point of view, even when in a particular sector the capitalist form has the advantage.¹

¹ I say nothing here about another very important aspect of the question, namely, that exports which are unprofitable commercially may be highly advantageous to the interests of the state economy as a whole, if the foreign exchange so obtained be used for importing machinery for industry which it is more expensive to manufacture here than abroad. (Note to the Second Edition.)

In the foregoing analysis we have started from the proposition that the prices of the products of state industry absorbed by private economy constitute a given magnitude. Now we have to examine the extremely important question of the role which price policy plays in socialist accumulation. Here we shall look at price policy in relation to exported goods, that is, the principles of our customs policy and its results, in the first place, and, in the second, the price policy of our trusts and state organs generally.

To begin with, let us take customs policy. We speak of customs policy in relation to *imported* goods because the levying of duties on exported goods by the state organs and Vneshtorg is not a new source of accumulation but only a different distribution between different state organs (for example, between the People's Commissariat of Finance and the Supreme Council of the National Economy and its trusts) of one and the same sum of merchant's profit or income from trade circulation.¹ The customs policy of the U.S.S.R., with its almost prohibitive rates on the products of foreign light industry and big duties on engineering products, is a powerful barrier protecting the country's internal commodity circulation from the operation of the world law of value and safeguarding our socialist industry, weak in capital and technically backward, from ruin under the blows of foreign competition. This role of socialist protectionism, like the role of the foreign trade monopoly, will be examined when we analyse the clash between the law of socialist accumulation and the law of value. At present we are speaking only about customs policy as a source of socialist accumulation.

The customs revenue of the U.S.S.R. can be divided into two distinct categories which are of differing importance from the standpoint of accumulation. Customs revenue from taxation of the means and instruments of production imported for the equipping or re-equipping of state industry is in no degree whatsoever an instrument of accumulation. If, let us suppose, a textile syndicate buys in Britain new machines for textile factories, costing 30 million roubles, and pays 10 million roubles in duties, all we

¹ As already mentioned, the income of the trading apparatus and the profit made by this apparatus are two quite different things. The income is calculated from the standpoint of the national economy as a whole, while the profit is the gross revenue less the costs of the trading apparatus. The apparatus has to have an income, that is, to make deductions from the national income, regardless of whether it is making a profit or a loss.

have here is a simple redistribution of the state funds between the textile industry and the People's Commissariat of Finance. The total funds of the state would not have been affected differently if there had been no duty on textile machinery or if the money had been paid back to the textile syndicate. One can, of course, say that the increase in the value of the textile industry's equipment compels the trusts to increase their rates for depreciation and to increase the selling price of their goods accordingly. But this is an imaginary objection, because in the given instance the textile syndicate is only a pump for the People's Commissariat of Finance, sucking a sum of 10 millions out of the consumer, and so far as essentials are concerned it is quite indifferent whether this amount is extracted by raising selling prices in order to cover extra expenses on depreciation or simply by raising selling prices and passing the difference on to the People's Commissariat of Finance as a surrender of profit by state enterprises, while the 30 millions worth of equipment comes in duty-free. Which is technically more convenient is another question. The whole matter comes down to this. With given prices and all other conditions being equal, the accumulation fund of the textile industry, as of every other, is a constant magnitude. If customs duties fall on part of the fund of this industry and are not passed on to the consumer, this is a redistribution within the state sector of *one and the same fund*. If an increase in prices takes place, then the fund increases too, but this happens as a result of the increase in prices, not as a result of customs policy. The potential amount of this increase is determined by a number of concomitant economic conditions, and not by the size of the customs duty. And whether it is in general expedient to tax the consumer of the products of a given branch of industry, because of the taxation of equipment imported for that industry, or whether it is more expedient to work out a correct price policy and the conditions for assignments of profits from state enterprises to the People's Commissariat of Finance, is a question of the technique of accumulation, which does not affect the production of the income itself.

Thus, taxation of imported instruments of production for state industry is a transferring of values from one of the state's pockets to another: from the fixed-capital fund of state economy to the cashbox of the People's Commissariat of Finance. Exactly the same is true of the taxation of raw material for industry. Here too,

with a given level of prices, the question boils down to a redistribution of state resources within the state sector itself; though this taxation may be expedient for other reasons.

It is quite a different matter with the taxation of instruments of production imported for private industry, and with the import of consumer goods. Here taxation is nothing else but a deduction from the incomes of the consumer masses or from the fixed-capital fund of private industry. If Vneshtorg imports sugar, footwear, and so on, from abroad, in so far as our own production is inadequate, the difference between the prices on the home market and the prices paid to purchase these goods abroad is paid by the consumer and received by the state trading organs. Even if the workers pay this difference, in the given instance we shall have an increase in the revenue and accumulation of the state, though at the expense of a reduction in the real consumer budget of the working class.

This is the situation if the imported consumer goods merely make up for the inadequacy of our own domestic production and are sold at home market prices. This import operation in no way hampers the process of accumulation and reproduction at other points of the state economy. It is a different matter when goods are imported in greater quantity than can be absorbed by the market along with home-made products and are sold at lower prices than the latter. In this case accumulation in the sphere of trade and through the instrument of customs taxation is bought at the price of a partial restriction of home production, that is at the price of restriction in one of the sectors not only of accumulation *on a production basis* but also of simple reproduction. If products are not imported in greater quantity than the market requires but are sold more cheaply, then the gain at one pole is accompanied by a loss at the other. Such a policy can be advantageous if the losses are balanced by the gains and the reduction in price leads to an extension of demand and is in the last analysis beneficial to industry. The practical decision one way or the other will be determined in this case by the results of a simple numerical calculation.

Let us now proceed to price policy in relation to industry. This policy is highly important not only for socialist accumulation but also for the normal course of production in general, even in its unexpanded state; it is of very great importance for peasant economy; it affects, finally, the political relations between the

proletariat and the peasantry. We will concern ourselves with it only from the standpoint of primitive socialist accumulation.

The fundamental theoretical question which must be answered here from the very outset is this: is equivalent exchange between the state economy and the non-socialist milieu possible in general? There are three possibilities here:

(1) When the state economy receives less value from the non-socialist milieu than it gives. In this case we shall have a steady decomposition of large-scale socialist production and a gradual selling-off of its products below cost. This decomposition can take the form either of a sale below cost of the fixed capital of industry not yet fully restored, with wages at a constant level, or a clearance sale for next to nothing of the labour power of the industrial proletariat, or, finally, both together. In the initial period of NEP we had a number of examples of such a bargain sale of industrial products, which involved selling for a song both the fixed capital and the labour power of the proletariat.¹ The transformation of this price policy into a system would undoubtedly mean a gradual dissipation of large-scale industry and the triumph of petty over large-scale production. The reader will find concrete examples in the chapter on the economics of industry. This case must not be confused with another, when as a result of price competition there is an increase in depreciation of fixed capital, but in fact restoration of fixed capital does not take place because the appropriate sums recovered are spent either on increased wages or on reserves of raw material, that is, they go to increase circulating capital. Such temporary loans from the fund of fixed capital for other, more urgent needs have played a big part in the life of Soviet industry. This process was inevitable with the extreme poverty of state industry in circulating capital, and often took place even with fairly high prices, not lower than restoration prices.

(2) Prices of the products of state industry are so calculated that when there is an exchange of products between this industry and private economy there is an exchange of equivalents, that is, neither of the economic systems exploits the other. This situation is in general possible only as a very brief episode. To consider such a situation as normal is to suppose that the socialist system and

¹ A striking example of the same thing, but from capitalist practice, is offered by the price policy of German industry in the period of the falling exchange after the world war.

the system of private commodity production, included in a single national economy, can exist side by side on the basis of complete mutual economic equilibrium. Such equilibrium cannot exist for long, because one system must oust the other. Either decay or development is possible, but not remaining at the same point. Speaking in a certain connexion about capital as a process of movement, Marx wrote: 'Capital as self-expanding value embraces not only class relations, a society of a definite character resting on the existence of labour in the form of wage-labour. It is a movement, a circuit-describing process going through various stages, which itself comprises three different forms of the circuit-describing process. Therefore it can be understood only as motion, not as a thing at rest.'¹ If capital, both in its individual circulation in some enterprise, and also if we take the capitalist system as a whole, in its relation to the pre-capitalist milieu, constitutes motion, in what way can the socialist form in its relation to the pre-socialist milieu be 'a thing at rest'? And what does motion mean in this case? Motion in this case means one of two things: either the capitalist form rapidly erodes the monolithic block of the state economy which was formed by the lava of the October revolution and the civil war, or the socialist form develops at the expense both of its own accumulation and of the non-socialist milieu, which also nourishes it with its juices. If capitalism is motion, socialism is *still more rapid motion*. And what it loses in speed in the period of primitive accumulation, in the sense of development of its technical economic base, owing to extreme poverty in capital, it is *obliged* to make up for by intensified accumulation at the expense of the non-socialist milieu. One of the most important means of this accumulation, beside the methods described above, and another which will be discussed later, is non-equivalent exchange of values with the non-socialist milieu. This exchange with advantage to the socialist form is possible only with an appropriate price policy in relation to the products of state industry.

(3) And so we come to the third case, which is not only possible but also inevitable under our conditions, that is, a price policy consciously calculated so as to alienate a *certain* part of the surplus product of private economy in all its forms. This policy is possible because the state economy of the proletariat has arisen historically

¹ *Capital*, Vol. II, p. 81, Stepanov's translation. [F.L.P.H. English edition, p. 105.]

on the basis of monopoly capitalism. The latter, as a result of the ending of free competition, leads to the creation of monopoly prices on the home market for the products of national industry, receives surplus profit through the exploitation of petty production, and thereby prepares the basis for the price policy of the period of primitive socialist accumulation. But the concentration of all the large-scale industry of the country in the hands of a single trust, that is, in the hands of the workers' state, increases to an enormous extent the possibility of carrying out on the basis of monopoly a price policy which will be only another form of taxation of private economy. The obstacles which state economy encounters on this road arise not from inadequate economic power to carry out this policy but from other causes. The greatest of these is the need to combine this policy with a policy of reducing prices, which can be achieved only if the reduction in costs of production goes forward still faster. And this in its turn presupposes the need to re-equip industry as soon as the limits of rationalization of production with the old technique are reached. Another difficulty results from the fact that the state is not a monopolist in all branches of industry. Consequently, price policy must be calculated so that state accumulation does not automatically entail private capitalist accumulation. I do not mention here the difficulties of a political kind which result from the relations between the working class and the peasantry and often compel us to talk about equivalent exchange, though this is, under socialization of large-scale industry, an even greater utopia than under the rule of monopoly capitalism.

Accumulation by way of an appropriate price policy has advantages over other forms of direct and indirect taxation of petty economy. The most important of these is the extreme facility of collection, not a single kopeck being needed for any special taxation apparatus.

The objection which comes down to this, that taxation on the basis of a definite price policy¹ will affect the wages of the workers

¹ I deliberately avoid saying 'on the basis of an increase in prices', because taxation is not only possible with falling prices but in our circumstances it will take place precisely with falling prices, or, for some periods, with unchanging prices; this is possible because with cheapening in the cost of production of products reduction in prices takes place not to the full extent of this cheapening but to a smaller extent, the difference going into the socialist accumulation fund and toward increases in wages.

and the rural poor is completely futile. It is not the rural poor who are the chief buyers of the products of our industry. Whatever they may lose in this way they can recover from the state in the form of credit, in the form of obligatory accumulation of the fixed capital of their economy, and so on. As regards the workers, this objection is as baseless as the objection to indirect taxes, which are completely transferable to wages. Here is a numerical example: if as a result of an appropriate price policy the working class along with the rest of the population, pays to state industry say 50 millions, the state can easily return this sum to the workers by an increase in wages, while the money received from the bourgeois and petty-bourgeois consumers is not returned to them and goes to swell the socialist accumulation fund. We shall return in more detail and with figures to this problem when we come to the chapter on the economics of industry.

Now let us go on to accumulation on a production basis, that is, to the increase in values created on the basis of expanded reproduction within the system itself, by its own forces.

Let us begin, as before, by recalling the corresponding factors in primitive capitalist accumulation. Defining what is called the period of primitive capitalist accumulation, Marx wrote: "The so-called primitive accumulation, therefore, is nothing else than the historical process of divorcing the producer from the means of production. It appears as primitive because it forms the pre-historic stage of capital and of the mode of production corresponding with it."¹ In other words: the period of primitive capitalist accumulation does not end with the organization of the first capitalist manufactory, but still goes on while capitalist development is in full swing. In order that the capitalist mode of production might become the dominant form of production, in order that the period of primitive capitalist accumulation might be succeeded by the period of 'normal' capitalist accumulation, in order that the separation of the producer from the means of production (that is, the creation of a class of wage-workers by the dispossession of the peasants from the land and the passing of the independent artisans into the ranks of the proletarians) might go sufficiently far for this, the process of productive

¹ *Capital*, Vol. I, part 1, p. 737, Stepanov's translation. [English translation, Allen and Unwin, p. 738.]

utilization of these cadres had to advance at sufficient speed. In order to fulfil in the main the fundamental task of primitive accumulation, 'the divorcing of the producer from the means of production', and in the process of doing so, capitalism had to begin accumulation also on the basis of production and to develop it on an ever larger scale. This process went forward, developing uninterruptedly: along with it accumulation continued by the economic and non-economic methods described above. But the role of accumulation on the basis of production grew uninterruptedly in proportion as the whole of production, in its fundamental branches, was transformed into capitalist production. The dialectical development of this process, in which effect passes into cause, was expressed by Marx in the words: 'With the accumulation of capital, therefore, the specifically capitalist mode of production develops, and with the capitalist mode of production the accumulation of capital.'¹

The source of capitalist accumulation on the basis of production is exploitation of labour power. The forms of this exploitation are primitive and crude in the early stages, when absolute surplus value holds first place as compared with relative. Later on the proportions between them are reversed.

In the opening period of the development of capitalism, the working day in the first capitalist enterprises was longer than in the handicraft production of the Middle Ages, holidays were fewer, the intensity of labour was invariably higher. In consequence, the total amount of labour carried out in one day by a single worker was greater than in mediaeval craft production. On the other hand, wages in the first capitalist enterprises were lower than the wages of an apprentice craftsman. Thus, a lower level of wages and a longer working day than in the previous economic system, and all this on the basis of higher technique and higher productivity of labour, constituted the source of the intense primitive accumulation on the basis of production in the first period of the development of capitalism. The state concerned itself with the production process in this period not so as to reduce or mitigate exploitation, as happened later, but on the contrary, so as to reduce the power of resistance of the working class to this exploitation. The state stood on guard over primitive accumulation

¹ *Capital*, Vol. I, part 1, p. 641, Stepanov's translation. [English translation, Allen and Unwin, p. 639.]

when it supported the process of driving the peasants off the land, when it promulgated laws on vagabondage and ruthlessly hanged 'homeless vagabonds' who did not wish to submit to the yoke of capital, when it promulgated laws on maximum wages and a minimum working day. The enemies of socialism, in particular the opponents of the Soviet economic system, observe gloatingly that in the first years of primitive socialist accumulation wages in our country are lower than before the war and the revolution. These gentlemen should be reminded that in the period of primitive capitalist accumulation the living conditions of the wage-workers in capitalist factories, as Marx showed in *Capital*, and as has been shown by a number of other investigators, were considerably worse than those of the apprentices and, of course, worse still than those of the craftsmen in the Middle Ages. And this was in spite of the enormous technical superiority of capitalist production over the crafts. In other words: the outward worsening of the lives of the working masses in the period of primitive socialist accumulation, in comparison with the position of the workers in a developed capitalist system, argues as little for the economic superiority of capitalism over socialism as the worsening of the position of the workers in the first capitalist manufactories and factories, as compared with the crafts, could argue for the economic superiority of independent production over capitalist production.

All the basic methods of the exploitation of labour power by capital are sufficiently vividly described in *Capital* and are well known. I want here to dwell upon one aspect of it which is of great importance for an appropriate contrast with the period of primitive socialist accumulation. I mean the rapacious squandering of the labour power of the proletariat in the name of the utmost possible economy of means of production, and so in the interests of reducing the cost of production of commodities. This is what Marx says about it:

Such economy extends to overcrowding close and insanitary premises with labourers, or, as the capitalists put it, to space saving; to crowding dangerous machinery into close quarters without using safety devices; to neglecting safety rules in production processes pernicious to health, or, as in mining, bound up with danger, etc. Not to mention the absence of all provisions to render the production process human, agreeable or at least bearable. From the capitalist point of view this would be quite

a useless and senseless waste. The capitalist mode of production is generally, despite all its niggardliness, altogether too prodigal with its human material, just as, conversely, thanks to its method of distribution of products through commerce and manner of competition, it is very prodigal with its material means, and loses for society what it gains for the individual capitalist.¹

This barbarous attitude to labour power, characteristic of all phases of capitalism, attains monstrous forms in the period of primitive accumulation, when the economic struggle of the workers has hardly begun and the balance of forces is extremely unpropitious for the working class.

It is necessary to mention another circumstance of this period, namely, that capitalism bears no expense for a reserve army of labour, which becomes an economic necessity in the subsequent period. Furthermore, the capitalists themselves restricted their own personal consumption in every way, in order to extend reproduction. Here is a small illustration from this field:

'The trade of Manchester may be divided into four periods. First, when manufacturers were obliged to work hard for their livelihood.' They enriched themselves chiefly by robbing the parents whose children were bound as apprentices to them: the parents paid a high premium, while the apprentices were starved. On the other hand, the average profits were low, and to accumulate extreme parsimony was requisite. They lived like misers, and were far from consuming even the interest on their capital. 'The second period, when they had begun to acquire little fortunes, but worked as hard as before'—for direct exploitation of labour costs labour, as every slave-driver knows—and lived in as plain a manner as before. . . . The third, when luxury began, and the trade was pushed out by sending out riders for orders into every market town in the kingdom. . . . It is probable that few or no capitals of £3,000 to £4,000 acquired by trade existed here before 1690. However, about that time, or a little later, the traders had got money beforehand, and began to build modern brick houses, instead of those of wood and plaster.' Even in the early part of the eighteenth century, a Manchester manufacturer who placed a pint of foreign wine before his guests exposed himself to the remarks and headshakings of all his neighbours. Before the rise of machinery a manufacturer's evening expenditure at the public house where they all met never exceeded sixpence for a glass of punch and a penny for a screw of tobacco. It was not till 1758, and this

¹ *Capital*, Vol. III, part 1, pp. 61–62, Stepanov's translation. [F.L.P.H. English edition, p. 86.]

marks an epoch, that a person actually engaged in business was seen with an equipage of his own. 'The fourth period', the last thirty years of the eighteenth century, 'is that in which expense and luxury have made great progress, and was supported by a trade extended by means of riders and factors through every part of Europe.' What would the good Doctor Aikin say if he could rise from his grave and see the Manchester of today?¹

Now let us turn to the question of accumulation on the basis of production in the state economy. The source of this accumulation is the same as under capitalism, that is, the labour of the working class, whose wages must be less than the total value of the products they create. But there are a number of very important distinctions to be made here, both in the general conditions of capitalist accumulation and in the forms in which labour power is used and is paid for.

Above all we must recall the fact mentioned above, that socialist accumulation can begin only *after the proletarian revolution*, whereas the process of primitive capitalist accumulation begins and goes on before the bourgeois revolutions. In certain countries it is in full swing during the revolution (England, France), in others it has passed through its main stages by the time this moment comes (Germany). The bourgeoisie did not have to buy the very possibility of undertaking the reconstruction of the whole economic system by the payment of that tribute, in the form of devastation of the productive forces and destruction of reserves, which was required by the proletarian revolution and civil war of the twentieth century. We do not know what will be the cost of the conquest of power by the proletariat in other countries, but in our country this conquest cost so dear that accumulation on a production basis could not begin at once. It was preceded by a period when the total amount of value created within the state sector, and distributed both inside and outside it, was not greater but less than the cost of production. The period of War Communism confronted the state not with the problem of accumulation and expanded reproduction under conditions of a new system of property, but with the task of military victory, on the one hand, and on the other, the task of feeding that commune of poor people, fighting against the whole capitalist world, which was then

¹ *Capital*, Vol. I, part 1, 605, Stepanov's translation. [English translation, Allen and Unwin, pp. 605-6.]

constituted by the proletariat and the poorest peasantry together with their army. The economy of that period was a military-consumers' communism. Its tasks were to hold out, to feed the people somehow, and to conquer. A state of deficit in the state economy could not in any way be a reason for restricting it and still less for closing it down. A cut in production took place only when raw material and fuel were in inadequate supply. Production which was carried on at a loss from the capitalist standpoint and from the standpoint of accumulation, was necessary and useful from the standpoint of the specific tasks of this period. I will cite a small numerical example, taken at random. If we were to calculate the cost of production in a typical enterprise of that period we should find the following picture (figures taken at random). Value of raw material and depreciation of instruments of production, that is, constant capital—1,000. Wages, that is variable capital—500. Cost of product—1,500. Market value of the product in pre-war prices—600. In such a situation there is not only no surplus product, there is an enormous loss— $1,500 - 600 = 900$. Under the system of war communism, however, with the tasks it faced, such a result was by no means negative. The workers earned their wages, and for something more, namely 100, they went to the common fund of the state commune. This 100 was not surplus product but a loan from fixed capital or an expenditure of fixed capital. But this loan, this expenditure constituted a positive feature in that period, because fixed capital and stocks of raw material would have remained dead capital if labour power had not been transformed into consumer goods. Here there could occur, and did occur in practice, cases when the market value of a product was lower even than the wages paid; in our instance 400 as against 500. But in this instance it was appropriate to continue to carry on part of production, since the workers had to eat and the costs of keeping the factories going had to be met. For the state it was more advantageous to have a deficit of 100 in products earned (not measured in value terms) *with the factories working*, than to have a deficit of 200 or 500 *with the factories closed*. This was an extremely peculiar kind of economy, radically opposite in its tasks and its methods of calculation to capitalist production.

Regarding the fundamental stimulus of capitalist production, that is, profit, Marx says: "The rate of profit is the motive power of

capitalist production. Things are produced only so long as they can be produced with a profit.¹

In the period of primitive capitalist accumulation the capital which passed from trade into production yielded a profit, as a rule. As a rule capitalism did not know, and by its very structure could not know, a long period when it 'worked for nothing', from the capitalist standpoint, that is, without profit, or at a loss, covering the latter from other sources of primitive accumulation, lying beyond the bounds of capitalist enterprise. Conversely, what can exist for private capital only as an exception, an episode—production without profit, that is, production without surplus value—was the rule in the period of War Communism. Adapting Marx's phrase just quoted we could say about the period of War Communism—everything was done, by any and every means, to increase the day-to-day consumption fund, even though this meant expending fixed and circulating capital—without hope, moreover, of rapidly replacing it.²

But an economy of this kind cannot last long. With the end of the civil war this prehistory of primitive socialist accumulation came to an end and its history began. *But the accumulation began not with an increase in the annual fund of surplus product in the state economy but with a reduction in the annual deficit in this economy.* Here we have the first characteristic feature of our socialist accumulation as compared with capitalist accumulation.

Socialist accumulation does not begin at zero and rise above it; it begins at a level below zero. A zero of surplus product throughout the state economy and at the same time a zero of loss—this zero line was the ideal at the time of the transition from the period of War Communism to the period of preliminary socialist accumulation.³ Whereas the motive power of capitalist production is striving for *maximum profit*, in the period of War Communism there was a striving for the *maximum amount of manufactured products*, even though at the price of *maximum loss*, and from the

¹ *Capital*, Vol. III, part 1, p. 241, Stepanov's translation. [F.L.P.H. English edition, p. 254.]

² A certain analogy to this in the capitalist world is offered by German economy in the period of the falling mark, since this economy was as a whole undoubtedly deficitary.

³ I deliberately refrain from saying 'to the period of the New Economic Policy', because this expression has now become quite meaningless, and below I make a suggestion for replacing it by another.

start of socialist accumulation the fundamental aim was to achieve *minimum loss* for the state economy as a whole (and so far as possible also for the individual enterprises). At the present time, that is, in 1925-6, the state industry and transport of the U.S.S.R. are profitable, on the whole. If the gross value of industrial production be 2,500 million roubles, and the net value be 1,000 million, there will be no accumulation if this 1,000 million = v (that is, if net production is equivalent to the total wages paid), and s (that is, in the given instance not surplus value but surplus product¹) is nil. Conversely, if the total amount paid in wages is less than the total of new values created in the course of a year by the workers in state industry, then there is surplus product, even though the whole of industry not only gives nothing to the state out of this product but even asks for subsidies of many millions of roubles in order to restore fixed and circulating capital. During the world war, the revolution and the civil war not only was there no normal reproduction but a monstrous exhaustion of the fundamental elements of production took place. Now they are being restored. If the basic resources for this restoration were to be taken not from accumulation on the basis of production but from accumulation at the expense of the non-socialist milieu, by the methods described above, that would not mean at all that accumulation of the first type did not occur. If, say, net annual production in state industry is 1,000 million roubles, the total wages paid in the year is 700 millions, and there goes on restoration of fixed and circulating capital not only these 1,000 - 700 = 300 million roubles which are beyond the ken of the state budget, but also a sum of 200 million visible and very burdensome to the People's Commissariat of Finance, this does not at all mean that there is no surplus product. It is present in this case, and moreover one must add to the 300 millions the total amount of central and local taxes paid by industry during the year, expenditure on patronage, and so on. In the given case I presume, of course, that the value of c transferred to the product, that is, constant capital equivalent in this instance to 1,500, is calculated correctly, and that the loss to industry caused by inaccurate allowance for depreciation and low prices does not eat up the surplus product created by the workers. And on the other hand, that that calculation is correct the other

¹ On the question which is the more correct term, surplus value or surplus product, see the next chapter of this book.

way round too, and that the result of increased monopoly prices is not ascribed to the productivity of labour of the workers, but is put down as a tax on the private economy, in this case one levied without being noticed, through an appropriate price policy.

Thus, at the very beginning of socialist accumulation the state carries on production without regard to its unprofitability, striving only to ensure the least possible loss in the economy as a whole, and far from always the least possible loss in choosing which individual enterprises to set to work (otherwise transport would stop at once). From this fundamental difference as compared with capitalist accumulation there follow a number of differences related to production. But even when the zero line in the field of accumulation has been reached, when to outward view the state economy as a whole is carrying on the same policy of accumulation as individual capitalist economy, we see a tremendous difference between primitive capitalist and primitive socialist accumulation. This difference does not only consist in the fact that the principle of accumulation in an individual state enterprise and the principles of accumulation in a whole complex are two different things, a fact which is extremely important for the economic policy of the different trusts. This difference is connected with the circumstance that whereas capitalist enterprises were from the start technically superior to, and economically stronger than, the separate enterprises of the mode of production which they were to oust or subordinate to themselves, that is, petty production, socialist production has to pass through a fairly long period of accumulation of material resources, during which the individual enterprise of the state economy will inevitably be not superior but inferior to, economically not stronger but weaker than, a contemporary capitalist enterprise in an advanced bourgeois country.

The entire economics of the state economy in this period will inevitably be subordinated, on the one hand, to the task of accumulating as quickly as possible resources sufficient to reconstruct the technical basis of industry on a foundation of electrification and economically rational redistribution of industry over the country's space, and, on the other, to the task of protecting this new economy from the still powerful capitalist economy. In this sense a period of primitive socialist accumulation with its own special laws will be inevitable not only for backward peasant countries like the U.S.S.R. but to some extent, probably, also for

the socialist economy of Europe, in so far as present-day European economy (even without the devastation threatening it from civil war) is economically and technically weaker than the economy of capitalist North America. In the more advanced industrial countries, however, primitive socialist accumulation will be based to a very much greater extent on the surplus product of the workers than on resources obtained from pre-socialist forms of production in Europe and the colonies.

But these two tasks did not confront capitalism in its epoch of primitive accumulation. Certain measures were taken against the crafts, but these were rather a product of excessive capitalist fervour than an economic necessity for capitalism, since it was quite able to overcome petty production decisively even in conditions of complete equality. On the other hand, if there is sometimes a protectionist tariff policy in countries with weakly developed industry, aimed at protecting a particular industry from the competition of a capitalistically more developed country, this has nothing in common, beyond external forms, with socialist protectionism. In the one case it is a matter of protecting one industry from another *belonging to the same economic system*. In the other we have the protection of one mode of production, which is in a state of infantile weakness, from another economic system mortally hostile to it which even in the period of its senile decrepitude will inevitably be stronger, economically and technically, for a certain time, than the new economy. Only with utter carelessness in theoretical matters can one see in socialist protectionism a complete analogy to capitalist protectionism.

The comparison would have meaning only if one socialist country with a weakly developed industry of its own were to introduce duties to protect this industry from the socialist industry of a more advanced country, instead of entering as a part into the unified economic organism constituted by the socialist economy of all the countries where the proletariat has come to power. Then we should have, as under capitalism, customs duties within a single economic system. But such an absurd situation is hardly likely ever to occur. In passing we may observe that even this example, like all examples from the field of comparison between capitalist and socialist economy, reveals the difference in principle between the two, in the sense that capitalism develops on the basis of competition and mutual antagonism between its parts, whereas

the method of socialist expansion in the economic field (as also in the political) is by mutual attraction between the parts, mutual aid, and a tendency towards a unified economic complex. This is the result not only of military but also of economic necessity.

We said, above, that it is characteristic of capitalism, especially in the period of primitive accumulation, to take a ruthless, barbarous, spendthrift attitude to labour power, which it attempts to treat like any other purchased commodity which forms one of the elements of production. The limits of exploitation and oppression in this sphere are the purely physiological limits (the worker has to sleep and to eat), or else the resistance of the working class. Later the relation of forces between workers and capitalists in the economic struggle is a very important factor restricting the tempo and amount of capitalist accumulation on the basis of production. As against this, from the moment of its victory the working class is transformed from being merely the object of exploitation into being also the subject of it. It cannot have the same attitude to its own labour power, health, work and conditions as the capitalist has. This constitutes a definite barrier to the tempo of socialist accumulation, a barrier which capitalist industry did not know in its first period of development. True, we know the enthusiasm and heroic self-restraint of the working class in the first years of the organization of state industry, especially in the period of the civil war. But such factors as this are not characteristic of the whole period of socialist accumulation.

The first, quite obvious difference between the state economy of the proletariat and the typical capitalist economy is the fact that though the state economy works for the market, and in the sphere of exchange is commodity production, in relation to the worker it *begins* (but only begins, up to now) to act as a system of production for consumption by the producers. The laws which regulate the movement of wages in the period of socialist accumulation are quite different from the laws regulating wages under capitalism in the period of primitive accumulation. As a very clear demonstration of this we may take the fact that, for example, in 1920, when unemployment was less and there was at one time even felt a partial shortage of skilled labour power (which called for certain measures on the part of the People's Commissariat of Labour), wages were a great deal lower than they are in 1924 with 1,300,000 unemployed in the country. Under the capitalist system,

where deviation of the level of wages from the value of labour power is determined by the supply of and demand for labour power and the degree of organization and strength of resistance among the workers, the relation is necessarily just the reverse. Thus in this period the law of wages is subordinated to the law of socialist accumulation, which is expressed in conscious self-restraint by the working class. This self-restraint takes the place of that resultant of the elemental struggle between labour and capital which, all other conditions being equal, that is, with a given level of value of labour-power, determines the level of wages and the level of surplus value in the system of capitalist production. Socialist accumulation is a necessity for the working class, but here it appears as understood necessity.

The facts that in the state economy of the U.S.S.R., in spite of its poverty, the eight-hour working day is firmly safeguarded, and that measures for the protection of labour are introduced on a larger scale each year, are similarly possible only because the working class is the master of production. With the present scale of production anything akin to this would be absolutely impossible for the capitalist system.

Among the special features which are characteristic of the period of primitive socialist accumulation as compared with the corresponding epoch of capitalism, we must mention the fact of large-scale unemployment, which necessitates considerable expenditure of resources from the accumulation fund—expenditure which the knights of primitive capitalist accumulation did not have to bear, when they opened their first factories and fed them with labour power from agriculture and the crafts.

We must also mention here that the frightful poverty inflicted by the war and the revolution, the tremendous reduction in the customary demands of the working class, served and still serve as one of the factors of socialist accumulation in the sense that the working class, with such a past so recent, easily manages to restrict its demands in these years when the tasks of socialist accumulation are in the forefront.

The fundamental law of primitive socialist accumulation is the mainspring of the entire Soviet state economy. But it is probable that this law is of universal significance, except perhaps for those countries which will be the last to go over to the socialist form of

economy. Proceeding from what we have said above, we can formulate this law, or at least that part of it which relates to the redistribution of the material resources of production, in this way. *The more backward economically, petty-bourgeois, peasant, a particular country is which has gone over to the socialist organization of production, and the smaller the inheritance received by the socialist accumulation fund of the proletariat of this country when the social revolution takes place, by so much the more, in proportion, will socialist accumulation be obliged to rely on alienating part of the surplus product of pre-socialist forms of economy and the smaller will be the relative weight of accumulation on its own production basis, that is, the less will it be nourished by the surplus product of the workers in socialist industry. Conversely, the more developed economically and industrially a country is, in which the social revolution triumphs, and the greater the material inheritance, in the form of highly developed industry and capitalistically organized agriculture, which the proletariat of this country receives from the bourgeoisie on nationalization, by so much the smaller will be the relative weight of pre-capitalist forms in the particular country; and the greater the need for the proletariat of this country to reduce non-equivalent exchange of its products for the products of the former colonies, by so much the more will the centre of gravity of socialist accumulation shift to the production basis of the socialist forms, that is, the more will it rely on the surplus product of its own industry and its own agriculture.*¹

The period of preliminary socialist accumulation is not only a period of the collecting of material resources by the new economy for a final victory over the capitalist form, it is at the same time a period of direct struggle of the state economy against private economy, a struggle which also proceeds along the line of redistribution of labour power. One of the most interesting questions of the theory of the socialist economy is the question how, in concrete terms, the elimination by the historically superior socialist economic system of all the pre-socialist forms will take place. The problem breaks down into these parts: first, how the methods of struggle of the socialist form against private economy in the period of preliminary socialist accumulation will differ from the methods of struggle in the period of truly socialist industry and,

¹ This law must of course, undergo certain modifications when there is a transfer of means of production from an advanced socialist country to a backward one.

secondly, what will be the difference in the mutual relations of the socialist form with the capitalist form, on the one hand, and with petty commodity production on the other.

How did the victory of the capitalist mode of production over pre-capitalist forms come about?

This is what Marx says about it:

With the progress of capitalist production, it also develops its own conditions and subordinates to its specific character and its immanent laws all the social prerequisites on which the production process is based.¹

. . . it is the tendency of the capitalist mode of production to transform all production as much as possible into commodity production. The mainspring by which this is accomplished is precisely the involvement of all production into the capitalist circulation process. And developed commodity production itself is capitalist commodity production. The intervention of industrial capital promotes this transformation everywhere, but with it also the transformation of all direct producers into wage-labourers.²

. . . the same conditions which give rise to the basic condition of capitalist production, in the existence of a class of wage workers, facilitate the transition of all commodity production to capitalist commodity production. As capitalist production develops, it has a disintegrating, resolvent effect on all older forms of production, which, designed mostly to meet the direct needs of the producer, transform only the excess produced into commodities. Capitalist production makes the sale of products the main interest, at first apparently without affecting the mode of production itself. Such was for instance the first effect of capitalist world commerce on such nations as the Chinese, Indians, Arabs, etc. But secondly, wherever it takes root capitalist production destroys all forms of commodity production which are based either on the self-employment of the producers, or merely on the sale of the excess product as commodities. Capitalist production first makes the production of commodities general, and then, by degrees, transforms all commodity production into capitalist commodity production.³

Capitalist production is not dangerous to natural economy when this has no points of contact with it, when the two systems constitute two completely non-communicating vessels. Natural

¹ *Capital*, Vol. III, part 1, p. 175, Stepanov's translation. [F.L.P.H. English edition, p. 192.]

² *Capital*, Vol. II, p. 87, Stepanov's translation. [F.L.P.H. English edition, p. 110.]

³ *Capital*, Vol. II, p. 2, Stepanov's translation. [F.L.P.H. English edition, p. 34.]

economy simply does not accept battle, as long as it is not dragged into money-commodity exchange. Capitalism then resembles an athlete who vainly calls on a weak opponent to fight while the latter remains silent and does not answer. Only when this weaker opponent is dragged into the capitalist arena by the development of commodity exchange does it get thrown on its back in the process of free competitive struggle. It is of great importance for us to emphasize here that the triumph of the capitalist mode of production over primitive natural economy or petty-bourgeois economy could be brought about simply by those economic advantages which every capitalist enterprise, even in the manufacturing stage of capitalism, possesses over more primitive forms of economy. Force played, in the main, an auxiliary role. It hastened the process of capitalist development mainly in that it facilitated the dragging of natural economy on to the battlefield. The Manchester school theories of the bourgeoisie were not only a product of defence against absolutism and its interference in the economic process to the harm of the third estate, but also a product of capitalism's awareness of its purely economic superiority to pre-capitalist forms, a superiority based on experience over many years of successful competition. Each capitalist enterprise, taken separately, was both technically and economically stronger than any craft enterprise or group of such enterprises. A length of cloth, made in x units of time in a capitalist enterprise, was a deadly weapon of capitalism in its struggle against the handloom weaver who took $2x$ or $3x$ units of labour-time to make this same length. The issue of the battle was decided by the customer who, by buying the cheaper product, thereby voted for the capitalist mode of production and supported it against the crafts, becoming a purchaser of capitalist products.

The state industry of the period of primitive socialist accumulation is in a quite different position from capitalist industry at the corresponding period. The individual enterprise of state industry is in a quite different position from a typical capitalist enterprise of the same kind. This must not be lost sight of for one minute when we face the burning question of how the process of the elimination of the capitalist form by the socialist form can and must develop. The vulgar idea according to which the socialist form, even in the initial period of its existence, will conquer the capitalist form in competitive struggle, just as the capitalist factory

conquered the crafts, is a crude, superficial, uncritical analogy with the past. This analogy does not throw light on the question, but only darkens it. Of course it is much easier to make such superficial and uncritical analogies than to understand the peculiarities of the period of primitive socialist accumulation. These analogies have been plentiful enough in our economic literature since the ending of War Communism and they have enjoyed poor success. The economic policy of the proletarian state, in so far as it has been correct and has not gone astray along the track of some sort of socialist Manchesterism, has proceeded, gropingly and spontaneously, in just the reverse direction to what would follow logically and practically from such an analogy, which is a substitute for a scientific and Marxist analysis of our economy.

At the present time our state economy is both technically and economically weaker than the capitalist economy of Europe and America. The Soviet economy of Europe after the dictatorship of the proletariat has come to power in it will probably be weaker than the economy of capitalist America. In the initial period of its development the socialist form, owing to the lack both of the material prerequisites needed for reconstructing its technical bases and of the necessary prerequisites of socialist culture and socialist education of the working proletariat, cannot develop all the advantages which are organically characteristic of socialism, rendering it historically more progressive than capitalism. In the period of preliminary accumulation the socialist form, as we have said above, has not yet developed all its advantages, but it has lost some of the advantages of capitalist economy. Conversely, the latter stands arrayed in the full panoply of its fundamental advantages, which even in the period of the decline of capitalism make it impossible in general for the socialist form to compete with it on a footing of equality. For the state economy of the proletariat it would be utterly (and most stupidly) self-destructive to try to defeat capitalism in the arena of free competition at the present stage of development of socialist economy. The latter would be disintegrated and eventually beaten in this struggle. We must not forget that while the whole of our state economy, all other conditions being equal, is in its first years weaker than capitalist economy (for precise comparison I put it like this: our state economy between 1918 and 1925 was weaker than our pre-war large-scale capitalist industry), each separate state enterprise is

also, all other conditions being equal, weaker than an equivalent capitalist enterprise. In relation to foreign capitalist industry this is expressed in the fact that the products of our industry are in the great majority both dearer and worse than foreign goods, and cannot be otherwise.¹ Inside the country private industry is weaker only because it is not allowed equal conditions for struggle. The state has held from the start the largest and technically most advanced enterprises. Furthermore, and this is most important, private industry is in every other respect placed in less advantageous conditions than state industry. Thanks to a completely correct socialist policy, the state economy and, consequently, the separate state enterprises, merely *as parts of this whole*, are stronger than the private enterprises, that is, they are stronger under conditions of inequality between the two sides. And if this is so, and it is, then it follows that the victory of the socialist form over the capitalist form in the period of economic and technical weakness of the state economy, that is, in the period of primitive socialist accumulation, cannot at all take place as a result of competition between separate state enterprises or groups of these and separate capitalist enterprises of the same kind. The state enterprises lack for victory this way the main thing which capitalist enterprises had when they were struggling against the crafts: they have no individual economic and technical superiority over the enterprises of the historically lower form. But if the socialist form is bound to win, and it is already winning, gradually, at the stage of primitive socialist accumulation (this accumulation, that is, expanded socialist reproduction, is itself a product of the struggle, one of its trophies), then there must be other causes for this, outside the sphere of competition between the individual enterprises of the two differing economic systems. What are these causes, and what is it that distinguishes socialist expansion from capitalist expansion and makes the socialist form the more stable in its struggle against the capitalist form?

The first and most important factor is that the state economy goes into action, and cannot but go into action, only as a unified whole. An individual state enterprise, detached from the whole and hurled into the arena of competition would probably not survive, but

¹ For example, the technique of our textile industry since the revolution is fifteen years behind that of Britain, many metal-working plants (in the Urals) are nothing but old junk, and so on.

would be crushed. But the same enterprise forming part of the unified complex of state economy has behind it all the power of this complex, and for this reason it is now not at all an isolated enterprise or trust of the old capitalist type, even when it has 'gone over to businesslike accounting' and to the outward eye looks like an individual enterprise in a commodity economy, or a capitalist trust. *Just as labour on the basis of co-operation is something more than the sum of the individual labour-powers united by this co-operative work, so the united complex of state economy is something more than the arithmetical sum of all the enterprises and trusts which it comprises.* An additional power appears as the result of very large-scale co-operation of a new type—the result of the operation of a great, organized economic mass. When our trusts were set up and passed over to businesslike accounting, the outward appearance of these trusts, their capitalist profile and capitalist methods of calculation, gave occasion to a number of vulgar economists to propound a sort of 'theory' of competition between individual state enterprises and capitalist enterprises—a theory which, in a suspicious way, united Marxists who were educated, or at least literate, with the smatterers and philistines of bourgeois 'science'.

But the practical requirements of the huge machine of the state economy and its separate links—practical politics, dictating economic necessity to this machine—are a far more solid thing than these paltry philistine opinions, which are an attempt to represent as the normal type of relations among the trusts, and between them and the private market, what were only temporary and superficial phenomena occurring at the time of the transition of the state economy from War Communism to the period of socialist accumulation (or as we customarily say, to NEP)¹, that is, phenomena of a certain disorganisation and disconnectedness of the trusts, lack of direction of these trusts, and so on. However, as soon as the period of reorganization, the period of adjustment of the economic forces of the state economy to conditions of commodity exchange,

¹ The New Economic Policy was 'new' so long as the memory of the 'old' economic policy of War Communism, to which it was contrasted, was still alive. It is necessary to do away with this expression. The word *NEP* was invented at the start, and it was used in three senses at the same time, to mean (a) the new economic policy, (b) our mixed commodity-socialist system as a whole, and (c) the bourgeois principle in our economy. Instead of 'new economic policy' it would be more correct and appropriate to say now: policy of socialist accumulation, period of socialist accumulation.

was concluded, and the first steps had been taken in the new situation, there began the process of 'gathering together' of the state economy, as a unified whole, of groping to find and utilize those advantages which are given by the co-operation of great economic masses, and lastly, of the gradual contraction of the field in which 'free competition' goes on between state and private economy.¹

Another source of stability for the socialist form in its struggle against the capitalist form and one which has nothing in common with free competition (but quite the opposite) is the fusion of the state power with the state economy. In the period of primitive capitalist accumulation the state often helped this process on, sometimes by forcible measures; but this co-operation between the state and capitalist development, and likewise the opposition of the feudal state to this development, are not to be compared to the role that the proletarian state plays in the economic process. Some idea of this kind of thing in the past can be given only by the period of state war-economy during the imperialist war. The tremendous extent to which fusion of the capitalist state with capitalist economy can increase the strength and stability of a given politico-economic mechanism was shown by the experience of state war-capitalism in Germany in 1914-18. Under the proletarian dictatorship this process of fusion goes very much further. The proletarian state and the proletarian economy form a single whole in the fullest sense. This welding together of political and economic might increases to an enormous extent both the political strength of the state and the economic strength of the state economy. We have already noted what a big role is played by non-economic methods of socialist accumulation. The power of the proletarian state over the surplus product of private economy (to the extent, of course, that is economically possible and suitable, and technically attainable) is not only itself an instrument of primitive accumulation but is also a constant reserve for this accumulation—so to speak, the potential fund of the state economy. Likewise, the monopoly of foreign trade and our defensive barrier of customs duties, against which the waves of the law of value of world economy break, is an achievement due to the internal

¹ What impelled the White Guards all to shout hysterically about a return to the methods of War Communism was in fact merely the process of consolidating the state economy and the beginning of transition to those methods of struggle for its existence and development which will be characteristic of the whole period of primitive socialist accumulation.

political power of the proletarian state and the external support given to it by the world proletariat. The use of these powers in this sector is of directly decisive importance for the entire existence of the socialist form of economy in its infancy.

And so we come to the conclusion that while there is formal similarity between capitalist and socialist expansion and that both forms possess an immanent striving to develop not only by the expenditure of their own resources but also, inevitably, through ousting historically backward modes of production and subjecting them to regular exploitation, nevertheless the methods of struggle against the old forms are quite different as between capitalism and socialism. Capitalism conquers in open order, in conditions of free competition with pre-capitalist economic forms. Socialism conquers in the close order of state economy, which goes forward as a unified whole, fused with the political power, in conditions in which free competition is systematically restricted and nearly liquidated. The appearance of freedom of competition after the liquidation of War Communism was only an educational measure for the purpose of disciplining and rationalizing the work of the state enterprises; it was not a return to the form of relations with the old mode of production which was characteristic of capitalism in its first and second stages of development. Socialism possesses *its own particular form of relations with pre-capitalist forms*, which cannot at all be a revival of the circumstances of primitive capitalist accumulation, and which cannot, either, be a revival of that free competition from which capitalism itself has gone forward to the stage of monopoly organization. We can say nothing about the forms in which the ousting of other economic systems of production by the socialist system will take place when the period comes in which the socialist economy has its own technical basis. But in the period of primitive socialist accumulation, which we are now reviewing, the methods of stimulating expanded socialist reproduction are: restriction or even abolition of freedom of competition, all-round utilization of the advantages of state monopoly, struggle by the state economy operating as a single complex, combination of economic with political means.

As regards the direct relations between the state economy and the petty-bourgeois mode of production, these relations must introduce something quite new into the economic history of human society, as indeed does the whole new socialist economy in

general. In subordinating neo-capitalism to itself, the state economy subordinates also those things which are subordinated to neo-capitalism, namely, those elements of simple commodity production on which this second form of capitalism has arisen. But alongside this there is inevitably a whole system of direct relations between petty production and the state economy. The essential nature of these relations must be determined by the following considerations. Petty production develops in three departments. One department remains in the realm of petty production for a long time; another is organized co-operatively¹ in a capitalist way; the third, avoiding the latter process, is united on the basis of 'new' co-operation, which is a special type of transition from petty production to socialism by way neither of capitalism nor of simple absorption of petty production by the state economy.

This new form of co-operation under the dictatorship of the proletariat, among the varieties of which are, of course, the peasant communes and *artels*, is still only about to develop. We cannot, therefore, analyse something which does not yet exist but is only about to arise. Let us mention here in passing that we have not yet found ways of using the state monopoly in the interests of co-operation, a development which, in conditions where free competition by the capitalist form is restricted, would give maximum results.²

To finish with the question under discussion, we must say the following. In the period of primitive socialist accumulation the state economy, even though it has not reconstructed its technique, is already in a position to make use of those advantages of a unified, organized complex which are beyond the reach of capitalism, which expends much of its resources to no purpose as a result of its anarchical structure. Attempts to utilize these advantages under the system of War Communism were unsuccessful, and their fruits were lost and fell down into that hole of general economic deficit which was characteristic of that economic system.

¹ I speak here not of consumers' co-operation or any co-operation in the usual sense, but of co-operation as united labour, that is, in the sense in which Marx speaks of co-operation in the first volume of *Capital*, in the chapter devoted to manufacture and the machine.

² The historical task of capitalism consists, among other things in that, on the basis of exchange, all forms of economy which participate in exchange are made members of a single economic organism. Thereby petty commodity production has the possibility, from the very start, of entering into direct connexion with state production.

Now these advantages would be very much more noticeable if we were at last to carry out the most urgent organizational task, which is also an important political one, of directing the entire state economy as a single entity.¹

At the same time we must mention another advantage that capitalism has over the state economy, namely, that the human material it needed was already shaped in the preceding epoch—that type of agent of production and distribution who was educated in response to capitalist stimuli to labour and adapted to capitalist discipline. Conversely, the type of ‘worker in the state economy’, as a special social type, is still only a formula, which means that the new economic system has to rely on ‘old’ people, so that huge losses are incurred by unbusinesslike methods, mishandling, and so on. As we shall see in a special chapter in the second volume, the accumulation of socialist habits and socialist culture is extremely important in the struggle between socialist and capitalist production. In the first decade, at least, capitalism has in this field an obvious advantage over socialism, because it holds the fruits of agelong cultural accumulation.

Another reason for the stability of the capitalist form in its struggle with the socialist form, especially noticeable in the sphere of petty and medium trade, is this, that private enterprises exploit the labour of their workers and office-workers and also the labour of the owners themselves, going beyond all the limits laid down by Soviet legislation for the protection of labour. The socialist system cannot reduce its costs of production and distribution in this way. And in a period when this form cannot beat private economy on economic grounds, this advantage possessed by private economy is of very great importance, especially in trade. Under the system of self-exploitation by the traders, with no expenditure on their part on book-keeping, with personal trust by the master in his employee (a product of the adaptation of the worker to the requirements of capitalist relations), state trade will hardly ever be found associated with smaller costs per unit of circulation. An advantage of socialism, the strict protection of labour, is here transformed into an advantage of capitalism, in so far as we are concerned with competition in reducing expenses of circulation.

After all that has been said the problem of external loans and

¹ Since these lines were written this process has advanced considerably. (Note to the Second Edition.)

concessions in the period of socialist accumulation will be clearer to us. On the one hand, a long-term loan obtained abroad is one of the forms under which the young new economy is exploited by foreign capital. But, on the other hand, it can to a very large extent accelerate the process of socialist accumulation. It means an increase (a non-recurring, discontinuous, increase), in the socialist accumulation fund, it accelerates the process of technical re-equipment of the state economy, and consequently it shortens the period during which state industry has to remain in the preparatory class of socialism. It gives the possibility of employing many tens of thousands of unemployed workers who are at present lost to production because of the shortage of material elements of production in the hands of the state, and thereby it makes them participants in socialist accumulation. Considered theoretically, foreign loans constitute a synthesis of capitalist and socialist accumulation. But in the period of the decline of capitalism they can be to a very much greater extent a factor in socialist than in capitalist accumulation. The interest which the state economy will pay for the credit will amount, unquestionably, to much less than the new values which will enter the fund of socialist accumulation. It is, of course, implicit that the state is completely free in disposing of the credits, and that the obligation to pay interest is the only tie between borrower and creditor. It is curious to recall that investment of capital by economically decrepit countries in younger, developing capitalist organisms abroad played a very big role in the period of primitive accumulation. Thus, for example, when Venice had lost the hegemony of Mediterranean trade, the resources accumulated by Venetian merchant capital were invested in the trade and industry of Holland. After a certain time, however, this capital began to move to England, and later it moved from England to America.

By the beginning of the eighteenth century the Dutch manufactures were far outstripped. Holland had ceased to be the nation preponderant in commerce and industry. One of its main lines of business, therefore, from 1701-1776, was the lending out of enormous amounts of capital, especially to its mighty rival, England. The same thing is going on today between England and the United States. A great deal of capital which appears today in the United States without any certificate of birth, was yesterday, in England, the capitalised blood of children.¹

¹ Marx, *Capital*, Vol. I, part 1, p. 780, Stepanov's translation. [English translation, Allen and Unwin, p. 781.]

In any event, if, for example, the resources of decrepit European capitalism were able to migrate on a large scale to the young Soviet economy, in the interval between now and the proletarian revolution in Europe, this would be something positive not for capitalism but for socialism. If in this process the cunning of Hegel's World-Spirit has to appear in the bait offered by the interest on this capital, it would not be worth while regretting even a higher rate of interest than usual.¹

With concessions it is a different matter. Here the relation between socialist and capitalist accumulation is rather the reverse. The organizer of accumulation is private capital, the state receives interest in the forms of a share in the product, of rent, of taxes and of the right to purchase at advantageous prices, and so on. But the negative side of the concessions consists in the fact that the state receives less of the surplus value than the capitalist does. Under a favourable concession arrangement the state receives nothing in its accumulation fund, generally speaking, where nothing would have been obtained without the concessionaire, who has increased by a still greater amount the national income of the country, made up of $v+s$. The fundamentally negative side of a concession is that here the state economy in the period of primitive socialist accumulation, that is, in its period of maximum weakness, comes into direct contact with foreign capital, which marches along armed in its panoply of technique, with its surpluses of fixed and circulating capital, and possessing great reserves of capital in its bourgeois rear. When large concessions are granted in basic branches of state industry which suffer from a shortage of capital it becomes clear from the very start that these concession enterprises are not on equal terms with the state enterprises; they immediately realize the advantages which developed foreign capitalist industry has over our own. Here we have a way round our customs cordon and a contrast between the two economic systems with a relation of forces unfavourable to the state economy. The result of this may be such that a too large dose of concessions taken into the organism of the state economy may begin to disintegrate it, just as in its time capitalism disintegrated the weaker natural economy. This disintegration is expressed,

¹ Unfortunately there is no less ground to expect that world capital will seek to solve the problem of new markets and the export of capital not in this form but in the form of a renewed intervention against the Soviet Union.

among other ways, in the fact that the workers in the capitalist enterprises enjoy better material conditions than the workers in state industry, a fact which will undoubtedly have political consequences. All this applies, of course, only to the first period of the existence of the state economy, the period of primitive accumulation. When the socialist form is consolidated economically and technically, concessions will no longer be a danger to us. But they will then be less necessary, because only our extreme need for fresh capital compels us to grant them at all. What has been said does not apply, of course, to concessions taken in moderate doses, away from the economic centres of the U.S.S.R. and the decisive branches of production. An example of the most useful and least dangerous type of concession is provided by the timber concessions.

At all events, caution in the field of concessions policy is an expression of the same economic necessity which obliges the economy of the U.S.S.R. to maintain by every means the monopoly of foreign trade and the system of very strict protectionism. Here again the object is to ensure the necessary pre-conditions for socialist accumulation. And here, therefore, we come to the struggle between the law of socialist accumulation and the law of value of world capitalist economy.

The Struggle between the Two Laws

We proceed now to the last problem, which is the most interesting from the theoretical standpoint; the question of the struggle between the two laws—the law of value and the law of socialist accumulation—within the economy of the U.S.S.R.

It is clear from what has already been said that the entire economic policy of the Soviet state and the economics of the state economy are subordinated to the law of socialist accumulation. It is impossible to talk about any laws of motion of wages in the state economy of the U.S.S.R., or of any theory of wages, unless one analyses the law of socialist accumulation and how it shows itself in this sector of the economic field. To this law are subordinated—and in so far as they are not yet so subordinated, they must with iron necessity be subordinated in future—the price policy with regard to the products of state industry and the system of railway and water-transport charges. The structure of the revenue side of the budget is subordinated to the law of socialist accumu-

lation, for instance, in the system of taxation of private economy for the benefit of socialist economy (allowing, of course, for adjustments to accord with economic possibilities and political expediency); so is the structure of the expenditure side of the budget. The monopoly of foreign trade and the system of socialist protectionism is a defence of the socialist economy at the present stage of its development, that is, a defence of the definite area which has been secured for socialist accumulation, against any encroachment upon its limits by the bearers of capitalist accumulation. Our entire credit system is subordinated to the law of socialist accumulation, by its methods of organization and by the principles underlying its policy, especially the principles governing distribution of the country's credit resources. Our trade policy inside the country is subordinated to this same law, in its constant endeavour to oust private economy from circulation and its introduction of a number of measures aimed at regulating the domestic market. This regulation¹ is a struggle for another form of organization of labour, and where the distribution of material resources is concerned it also constitutes either a restriction on the rate and amount of capitalist accumulation in the circulation process, or an increase in socialist accumulation in this sphere, or else the realization of both of these together. Our labour-protection policy is, on the one hand, a policy of preserving and qualitatively improving the most important productive force, the most important factor in socialist accumulation, namely, the labour-power of the proletariat, and, on the other hand, in its extension to private economy, it imposes a restriction on the rate and amount of capitalist accumulation.

In short, all the basic processes which go on within the state economy, and the general principles of the economic policy of the proletarian state, are subordinated, *at the present stage of development*, first and foremost to the economic necessity of all-round accumulation and all-round saving and thrift. This policy is not being carried out in all spheres with sufficient fullness and

¹ In general, the regulating principles in our economy are the organizational shoots of the new economics—the economics of state-organized economy. But at the present stage these shoots are taking root and becoming stronger, fulfilling *first and foremost the functions of primitive socialist accumulation*, if one understands by this term also the struggle for existence of the entire complex in the present situation. Arising historically, in the main, to fulfil this function, they will in the future play a different role.

consistency, for example, in the struggle against unproductive consumption and so on; but this is only a question of time.

The state economy of the U.S.S.R. is, however, only part of the total economic entity of the country. A large part of the values produced are created in the private sector, or, more precisely, in the sphere of simple commodity production, as we shall see in the next volume, from a detailed numerical analysis of our economic budget. Our economy taken as a whole is a socialist commodity system of economy. The law of socialist accumulation is rooted in the chief socialist links of the economy, that is, in the state economy, but it extends its influence in a certain degree to private economy, though only as into an alien milieu. Conversely, the immanent law of simple and capitalist economy is the law of value, which likewise extends its influence to the state economy as well. As the economy of the U.S.S.R. is an example, never before seen in economic history, of the co-existence of two systems of economy which are different and by their very natures antagonistic, with different regulatory mechanisms, this economy must inevitably be the arena not only of struggle but also of a certain equilibrium, and so, in practice, of a certain co-existence of two different economic laws.

The law of socialist accumulation is limited by the 'democracy' of commodity economy, with the tendencies of development and methods of regulation which are inherent in it. Commodity economy is limited, surrounded—gripped, if you like—by the law of socialist accumulation, by the laws of development of the socialist body which is alien to it. For this reason our economy, while not yet socialist, is at the same time no longer simply a commodity economy.

The question of how to describe our system of economy in scientific economic terms has been the cause of many disputes and will continue to be so for some time yet—let us hope that it will not be a long time. There was a period when it was considered the height of businesslike realism and communist courage to treat our economy as one of the varieties of commodity economy, only slightly distorted as a result of the state ownership of large-scale industry. This standpoint tacitly assumed the existence in our economy of only one fundamental law, that which operates in commodity economy—the law of value. If things had really been like that, then under the influence of this law, pressing both from

inside and from outside, state industry necessarily would have been in process of dissolution in the waters of NEP, if not already quite dissolved by now; the state monopoly would have had to become more and more fictitious, enterprises working at a loss would have had to be closed down, leaving only the profitable ones in being, and so on. In particular, transport and metal-working would have had to be left in the hands of foreign capital, or handed over to it, and so on. We do not observe that this is happening; but we do observe how an exactly reverse process is gradually developing and becoming consolidated along with the development of commodity-production by peasant economy. Why is this? If this process is developing not along the line of the regulator of commodity economy but in opposition to it, if state industry is developing and becoming consolidated in opposition to the operation of the law of value, this can only be because some other law is counteracting the law of value, so that it is modified, caused to deviate or even partially suppressed. What law this is we have already partly seen.

This conclusion is of very great importance in principle for the correct understanding of our economic system and its basic tendencies of development. But by recognizing the presence in this economy of two fundamental laws we still have not given any answer to the question of the relative economic weight and dynamic of each of these laws. This will have to be the subject of a special analysis. We must merely observe that it is only if we start from the recognition of these two laws, as the presupposition of every concrete investigation of the general tendencies of our economy, that we shall be in a position to grasp correctly the mass of new and unique features which is presented by this economy. These new features and phenomena cannot be deduced from the development of commodity economy as such. For this reason, whoever sees our economy as merely a commodity economy is obliged either to leave these phenomena without explanation, or to pile up a heap of 'exceptions' which call out for some general law, or else (which happens most often) to ascribe them, with an air of profundity, to the peculiarities of 'an economy in which the dictatorship of the proletariat exists'. I consider that we have outgrown this sort of 'theoretical analysis', and the repetition over several years in succession of the same phrases about NEP has long since disgusted us with its emptiness and sterility.

Let us see how far the operation of the laws of commodity economy extends in our economy, and in particular what is the influence on these laws on our state economy; and also to what extent the laws of commodity production are changed or partly suppressed by the law of socialist accumulation.

We will begin with the laws of commodity production.

Commodity production, whether it be the simple form or the capitalist form, is production for the market. Since the ending of War Communism, the sphere of circulation in our country has been dominated by the exchange of goods for money. This prevails not only within the whole of private economy (except, of course, natural economy), not only when there is exchange between the state economy and private economy, but also to a very great extent when exchange takes place within the state economic sector. Now, this form of exchange of goods for money, which is almost universal in our country, and the monetary calculation which goes with it, are taken by many as an index to the field of application and the dominating power of the law of value as regulator of all our economic processes. This undoubtedly is at the root of all that over-estimation of the role and significance of the laws of commodity economy which has prevented and still prevents many from grasping the true essence of our economic system. *However, it is quite wrong to say: the field in which exchange of goods for money prevails = the degree of importance of the law of value.* This is wrong even in relation to simple capitalism, in so far as in the monopolistic period of capitalism the law of value has already been partially abolished, along with all the other laws of commodity production which are connected with it. Very great changes take place in the very foundations of commodity production. Quoting the bourgeois economist Kestner's description of the changes which the period of monopoly capitalism brings into the system of trade, Lenin wrote in his pamphlet *Imperialism, the Highest Stage of Capitalism*: "Translated into ordinary human language this means that the development of capitalism has arrived at a stage when, although commodity production still "reigns" and continues to be regarded as the basis of economic life, *it has in reality been undermined*¹. . ." (emphasis mine, E.P.) And in the same pamphlet Lenin writes, in another place "The

¹ Lenin, *Imperialism*, p. 23, 'Krasnaya Nov' edition. [*Collected Works*, Vol. XIX, 1942 English edition, p. 102.]

old capitalism, the capitalism of free competition, and its indispensable regulator, the stock exchange, are passing away. A new capitalism has come to take its place, which bears obvious features of something transitory, which is a mixture of free competition and monopoly. The question naturally arises—to *what* is this new “transitory” capitalism leading? But the bourgeois scholars are afraid to raise this question.¹

We know now, by experience, after the October revolution, ‘to what’ monopoly capitalism is ‘leading’. It is leading not, at all events, to free competition, but to monopoly, a very much wider and all-embracing monopoly than that of the American trusts. It is leading to state monopoly in all large-scale and medium industry, transport, the credit system and wholesale (and in part retail) trade, a state monopoly which surrounds itself with a powerful co-operative network. In this sense our state economy is historically the continuation and deepening of the monopoly tendencies of capitalism, and so also the continuation of these tendencies in the direction of the further decay of commodity economy and the further liquidation of the law of value. If already in the period of monopoly capitalism commodity economy was, in Lenin’s expression ‘undermined’, then to what extent have it and its laws—consequently, also its basic law of value—been undermined in the economic system of the U.S.S.R.?

Between our simple commodity production and our state economy there are extremely weak intermediate links of capitalist production, and only in the field of exchange is there a very big link in the form of private merchant capital. In this situation, that is, while private industrial capital is still very weak, the monopoly of state industry is predominant; it is limited, within the country, in the main only by the competition of crafts and artisan industry. But this competition, in relation to state industry as a whole, is itself limited by the technical superiority of the latter, and in relation to heavy industry it is quite impossible.

But if one must not judge the strength and significance of the specific laws of commodity production by the amount of commodity exchange for money, because this approach to the problem would be purely formal and superficial, it would be equally formal and superficial to draw conclusions about the influence of

¹ Lenin, *Imperialism*, p. 34. [*Collected Works*, Vol. XIX, 1942 English edition, p. 114.]

the laws of commodity production on the state economy by taking as the yardstick of this influence the quantity of commodities which move from the private sector into the state sector and vice versa. The American farmer takes part, to a greater degree than our peasant, in commodity-exchange with the industry of his country; his grain and raw materials are needed by this industry, which also needs him as a consumer; this nevertheless does not alter the fact that the farmer, subjected by the economic relation of forces, finds himself in bondage to merchant capital, the trusts and the banks, and knows no equivalent exchange with the town. One cannot say that the more commodity exchange between town and country develops in the U.S.S.R., the more state industry will fall into dependence on commodity economy and the more it will be subjected to the operation of the laws of that economy. In some connexions *exactly the reverse is true*. Our industry would have found itself in a worse situation, the more peasant economy had transformed itself into natural economy. As proof of this we have the epoch of War Communism. Conversely, the more commodity exchange develops between town and country, the more the balance of forces is decided by the degree of organization respectively possessed by the two sides. In this case, therefore, peasant economy will fall into ever greater dependence on the state economy, provided only that industrialization proceeds at a normal rate.

A more detailed and more profound analysis is needed for evaluating the influence of the laws of commodity production on the state economy. We provide this analysis in the following chapter, and also when we deal with the economics of agriculture and the system of exchange in the U.S.S.R.

Here we shall point only in a preliminary way, and in passing, to the most fundamental aspect. Undoubtedly, the elemental force of market relations, and therefore also the law of value, exert an influence when the state sector buys from petty producers goods for which there are other, competing consumers inside the country. It exerts an influence, too, when the state has priority in purchasing goods but the peasants are able to go over from growing one type of crop to another if the monopoly purchaser offers unacceptable prices to the producer. In this case, the influence of the law of value finds expression not only in prices, that is in terms of money, on the periphery of exchange with private economy; it penetrates

deeply into the state sector, being reflected in the calculations not only of the branch of production concerned but also in all adjoining branches, because it affects among other things the general level of wages.

But are such values often realized in exchange between private and state economy, and what is their relative weight? The law of value operates very powerfully in the exchange of foodstuffs of animal origin—meat, butter, eggs—and of such raw materials as hides, sheepskins, and wool, where there are many competing buyers and where the producer himself, should the market situation prove unfavourable, increases the extent to which he carries out his own, handicraft processing of the raw material, thus boycotting the town. It has less influence in market relations where exchange of other, technical raw materials is concerned, such as hemp, flax, and especially cotton. Here, it is true, the maximum prices are determined by the external market, that is, by the law of value of world economy, but the very great gap between average internal prices and prices on the external market puts power over prices largely in the hands of the monopolist exporter or quasi-monopolist of factory processing of these materials, that is, the state. Finally, to a very great extent the state is the master of the situation as regards prices in the grain trade. It might seem that the play of market forces was nowhere so free as in this field. In reality, however, the position can be quite the opposite. When there is a harvest failure the forces of supply and demand come to the fore in the grain trade, but when there is an average harvest, or an abundant one, so that surpluses have to be realized abroad, it is the state that is master of the market situation. In the bad harvest years 1920 and 1921, when there was also a substantial failure to sow, the state checked the operation of market forces in the country by means of confiscation of surpluses, the food tax, and importation of grain from abroad. Nowadays when there is a surplus the state achieves its aim very successfully by means of its monopoly of grain exports. Controlling hundreds of millions of poods of home-produced grain, it controls prices on the home market. This was shown clearly enough by the experience of autumn 1923, when, with grain surpluses available, a postponement of the carrying out of grain operations, tantamount to a temporary boycott by the state of the peasants' grain offered for sale in order to effect payment of tax,

brought down grain prices in some localities to 20–30 kopecks a pood of rye, that is, to one-sixth or one-seventh of the level in 1920–1. That is how things are when the situation is normal, that is, when there is an average harvest. Later, with the development of the grain trade and, what amounts to the same thing, with the development of the production of commodities by peasant economy, the regulating role played in this sphere by the state (within the limits set by the world law of value in this sphere) will not decline but increase, provided only that industry develops and the satisfaction of the effective demand of the peasantry proceeds normally and does not lag behind as we have seen happen in 1924–6.

But the laws of commodity production exert their influence on the state economy in another way too. I refer to the realization of the products of state industry on the private market. Our industry works for the demands of the market. It works for market demand both when this demand comes from within the state sector and when it comes from outside. But market relations within the state sector are not at all derived organically from the immanent laws of the development and structure of the state economy itself. Here, market relations are formal and are dictated to the state economy from without, by the form of its relations with private economy. It is true that regulation of the demand of state industry for the products of this industry itself can go very far. While retaining the market form and calculation in money terms, a great deal of planning has been achieved in the distribution of orders, regardless of all the fluctuations which will occur in the demands of those branches which are directly connected with private economy. Exchange with private economy, however, is another matter. In this, proportionality in the development of state industry depends on the proportionality of development in private economy—which happens spontaneously. Here state industry is bound fast to the wheel of private economy. Yet its work to meet market demand is the necessary prerequisite for socialist accumulation itself. For if accumulation at the expense of private economy entails a balance of values exchanged in favour of the state economy, this balance will be the greater in proportion as, all other things being equal, the numerical amount exchanged is greater. But through this door of the dependence of the state economy on the effective demand of private economy, the elemental fluctuations of commodity economy break into the state

economy. These fluctuations can be limited by a planned price policy and a planned development of the state economy, based on preliminary calculations of the demand of private economy, but they cannot be done away with entirely.

In addition, the force of the influence of private economy on the state economy is felt in this connexion in the fact that, at the stage of primitive socialist accumulation and with the extreme shortage of capital, the development of the state economy is controlled by the amount of effective demand; it cannot break away from the laws of commodity economy and gradually speed up the rate of transition to the socialist type of production to satisfy the consumer demand of the workers in the socialist sector themselves. For a gradual increase in the reproduction fund at the expense of exchange with private economy is possible only on the basis of market demand, with the consequences which result from that. Since exchange of commodities on the market is the only basic form of connexion between private economy and state economy, it becomes the necessary prerequisite of socialist accumulation.

The operation of the law of value in commodity economy under free competition, that is, in its native social spontaneity, is essentially different, therefore, from its operation in Soviet economy, and still more so at its economic antipodes, the state economy. The difference here is more or less like the difference between the force with which a stone dropped from a great height strikes the surface of the water and that with which it strikes the bottom of the reservoir. The more organized the state economy is, the more closely its separate links are united by an operative economic plan, the more it constitutes a compact economic whole, by so much the stronger is its resistance to the law of value, the greater is its active influence on the laws of commodity production, the more is it itself, with its iron law of socialist accumulation, transformed into the most important factor of regularity in the entire economy, including the private sector.

Summing up this preliminary balance of the operation of the law of value and the law of socialist accumulation in our economy, we arrive at the conclusion that no scientific analysis of our economy is possible if one does not recognize the existence of these two laws and if one does not study the outcome of their interaction.

Now we are in a position to give a fuller formulation of the law

of primitive socialist accumulation than that already given, in so far as this law not only dictates to us with objective inevitability a certain volume of accumulation of material resources for expanded reproduction from state and private economy, but also opposes the law of value along the whole battlefield, presenting itself as the regulator of another type of economy, antagonistic to commodity production. This definition, particular aspects of which will be more precisely shaded in later, when we analyse the law of value in our economy, can as a whole be reduced to the following.

By the law of primitive socialist accumulation we mean the entire sum of conscious and semi-spontaneous tendencies in the state economy which are directed towards the expansion and consolidation of the collective organization of labour in Soviet economy and which are dictated to the Soviet state on the basis of necessity: (1) the determination of proportions in the distribution of productive forces, formed on the basis of struggle against the law of value inside and outside the country and having as their objective task the achievement of the optimum expanded socialist reproduction in the given conditions and of the maximum defensive capacity of the whole system in conflict with capitalist commodity production; (2) the determination of the proportions of accumulation of material resources for expanded reproduction, especially at the expense of private economy, in so far as the determined amounts of this accumulation are dictated compulsorily to the Soviet state under threat of economic disproportion, growth of private capital, weakening of the bond between the state economy and peasant production, derangement in years to come of the necessary proportions of expanded socialist reproduction and weakening of the whole system in its conflict with capitalist commodity production inside and outside the country.

The following are inevitably subordinated to the law of primitive socialist production: the amount of surplus product alienated from private economy; the level of wages in the state economy; price policy; the regulation of internal and external trade; the tariff system; credit policy; the structure of the budget; the structure of import plans; and so on.

Let us now examine what is the relative weight of the law of value in our economy and to what extent the categories of Marxist political economy apply in our commodity-socialist system.

III. THE LAW OF VALUE IN SOVIET ECONOMY

General Remarks

WHEN analysing the prerequisites of primitive socialist accumulation we showed that the law of socialist accumulation is not the only fundamental law of Soviet economy. The peculiarity of the commodity-socialist system which exists in our country consists in the fact that within its confines there operate at one and the same time *two laws* with diametrically opposite tendencies. The second of these two laws is the law of value. While the tendencies of the future of our economy are expressed in the first law, in the second law our past weighs upon us, stubbornly striving to remain in existence and to turn back the wheel of history. In the law of value are concentrated the entire sum of the tendencies of the commodity and commodity-capitalist elements in our economy, and also the entire sum of the influences of the capitalist world market on our economy. We will now examine in more detail how the law of value manifests itself in our economy, what its relative weight is, how the conflict between the two laws proceeds, and what social results are engendered by this conflict which arises from the interaction and obligatory co-existence of the two basic tendencies in the country's economic organism.

In the chapter on the law of socialist accumulation we have already touched on this question in passing. Now we have to analyse methodically and systematically the operation of the law of value in our economy. This will best be done if, after a few general remarks, we analyse the fundamental categories of political economy and establish what degree of influence they have on our economy.

The law of value is the law of spontaneous equilibrium of commodity-capitalist society. In a society without commanding centres of planned regulation, thanks to the operation of this law, direct or indirect, everything is achieved which is needed for the comparatively normal functioning of a whole productive system of the commodity-capitalist type: the distribution of the productive forces—that is, people and means of production—among the

different branches of the economy; the distribution of the product of society's annual production between workers and capitalists; the distribution of surplus value for expanded reproduction between different branches or countries, and its distribution among other exploiting classes; technical progress; the victory of advanced economic forms over backward ones and the subordination of the latter to the former. What we call the categories of political economy are the logically pure, ideal descriptions of the real relations of production, exchange, and distribution which take shape on the basis of commodity and commodity-capitalist production. Under this economic system we have, if the expression may be used, congealed groups of people engaged in the process of production and distribution, as they are formed on the basis of the spontaneous self-regulation of the economy by the law of value; with all the fluidity of their individual composition, these groups are constantly reproduced at each fresh state of capitalist development, forming definite types of relations of production and distribution. The scientific descriptions of these types of relations of people to people (and not of things to things or people to things), on the basis of commodity and commodity-capitalist production, are called by Marx the categories of political economy; these categories adequately describe, therefore, the real relations under capitalism in the sphere of everyday life, but in science these relations are reproduced abstractly, in their pure forms.¹ Rent, as a category of capitalist economics, is not the real values which the capitalist tenant pays to the owner of the land, but the distributive *relation* between tenant and owner which guarantees the regular pumping of part of the surplus value from one to the other. Wages and surplus value are the essence of the relations of production and distribution between workers and capitalist. The category of profit, as another form of surplus value, is a *relation of distribution* between capitalists, which passes thanks to the mechanism of equalization of the rate of profit and the entire mechanism of capitalist society into a relation of distribution of labour and means of production. In this case it is a production-relation of capitalists to capitalists, taken not as consumers (as

¹ There is, of course, no need to explain here that the relation between the categories of everyday life and the categories of thought in political economy is to be understood in accordance with the entire general philosophical conception of dialectical materialism.

above), but as organizers of production. The category of price has three aspects: first, as a production-relation which summarizes both the level of productivity of labour within each branch of production and the distribution of labour power among the different branches; secondly, as a relation of distribution, in so far as the price level determines the level of that stream of values which flows from the hands of one group of people into the hands of others; thirdly, as a production-relation once more, in that, through the mechanism of the deviation of prices from values, redistribution of productive forces takes place between the different branches of the economy. Finally, the commodity is the most general category of political economy, characterizing as a whole the type of production-relations between people which is under examination as one of relations between separate independent commodity-producers, connected up into a single economic whole by a system of market relations. The categories can be logically deduced from the law of value.

We make these preliminary remarks for the following reason. Ninety per cent. of all the mistakes, misunderstandings and brain-torturings which occur when our young people study Marx result from a naturalistic conception of the law of value. Having grasped in a formal way that the categories signify relations between people, many stubbornly revert to a conception of them as real categories, especially when they explain them not in the words of actual quotations from Marx but in their own words. Behind the stream of things which flow, say, from the exploited workers to the capitalists, from the capitalists to the bankers or the landowners, from one branch of production to another, which are bought and sold on the market and then consumed, and so on, they often fail to see the constancy of the groups of people from whom and to whom this movement goes on, that constancy of the production-relations between men under the system of commodity economy which is precisely the subject of political economy. This mental materialization of human relations which are also outwardly materialized in real life leads, likewise, to an incorrect conception of many relations in our own economy. Here, too, behind the movement of material values which *in natura* are the same as under capitalism and which often move along lines which outwardly are the same (wages, 'accumulation', 'rent'), behind the identity of the relation of people to nature (the same technique,

'the same' workers), the changes which have taken place in production-relations are not seen.

For this reason it is specially important to approach the analysis we propose with a completely correct conception on the reader's part about how the categories of capitalist society are to be understood from the Marxist standpoint, so as to maintain this conception when analysing the production-relations in Soviet society. In the course of our analysis the question whether it is correct to describe our economy, or at any rate the dominant type of relations within it, by the term 'state capitalism', will solve itself.

The Law of Value and Monopoly Capitalism

What is prerequisite if the law of value is to be able to operate? It is not enough to answer this question with the general phrase: what is prerequisite is the existence of that society on the basis of which this law operates, namely, commodity production. For the economy of a society of independent producers working for the market is also commodity production; so is classical capitalism of the period of free competition; so also is monopoly capitalism, capitalism trustified on the national and sometimes also on the international scale. Finally, the state capitalism of Germany in 1914-18, and the very strong tendencies in the same direction in the economy of the Entente countries during the war, were also, formally, commodity production. But would anybody undertake to affirm that under all these four types of commodity production the law of value was able to operate in the same way and to display all of its most characteristic features? I say nothing about early capitalism, which still suffered from survivals of the craft regulation of production and from the interference of the feudal state in the production process.

In so far as the law of value is the *spontaneous* regulation of the production process in commodity society, to that extent there is needed, for the fullest and most typical working of this regulatory mechanism, the most spontaneous type of production relations, with the minimum of distortion of this spontaneity by organizing principles in production and exchange. A storm at sea can be photographed best in the open ocean. Similarly the law of value can be theoretically photographed best of all in the pure form in its native spontaneity, that is, in the period of capitalist free competition, a task which Marx carried out in *Capital*.

For the fullest manifestation of the law of value it is necessary that there should exist complete freedom of commodity circulation both within a country and between countries on the world market. It is further necessary that the worker be a free seller of labour-power as a commodity, and the capitalist a buyer of it who is himself in no way constrained. It is necessary that the interference of the state in the production process and the number of state-owned enterprises be reduced to the minimum, and also that there be no regulation of prices by the monopolist organizations of the entrepreneurs themselves, and so on. Such ideal conditions for free competition on the scale of world economy have never existed, because tariff barriers between national economies, interference by the state in the production process, and also the impossibility of free investment of capital in agriculture without paying tribute to private owners of land have all meant a definite limitation on freedom of competition. However, a *comparatively* ideal period for free competition on the scale of world capitalist economy, and so a period as favourable as possible for the working of the law of value, was the epoch of classical capitalism, before its transition into the imperialist stage. 'The rise of monopolies, as the result of the concentration of production, is a general and fundamental law of the present stage of development of capitalism.'¹

With the development of monopolist tendencies in capitalism the ideal period of bourgeois free competition comes to an end. A number of highly important branches of production in the largest capitalist countries are taken over by powerful trusts, or at any rate organizations are formed which are not purely production organizations but are concerned with realizing the products, that is, syndicates and cartels. A fusion of the biggest trusts with bank capital takes place, or else banking centres become the points of departure of a far-reaching control over production. Free competition is either entirely abolished within the given country, in the fully trustified or syndicated fields, or is seriously restricted, owing to control by bank capital which does not encourage desperate struggle between enterprises which it finances or controls. Monopolist tendencies extend beyond national frontiers; attempts are made, sometimes successfully, to create in certain branches of production single international capitalist trusts, or

¹ Lenin, *Imperialism*, Vol. XIII, pp. 249-50. [*Collected Works*, Vol. XIX, 1942 English edition, p. 96.]

else free competition is reduced to rivalry on the world market between two or three gigantic trusts dominating a certain branch of production. Restriction of freedom of competition leads also to restriction of the working of the law of value, in that the latter encounters a number of obstacles to its manifestation and to some extent is replaced by that form of organization of production and distribution to which capitalism can in general attain while still remaining capitalism. In the sphere of regulation of prices by the law of value a change occurs in the following sense. When there is trustification or syndication of important branches of production within a certain country, prices systematically (though not necessarily always) deviate from value in the upward direction. When 'dumping' takes place, prices systematically deviate from value *downwards* on the foreign market and upwards on the home market. The equalizing of the rate of profit between the trustified branches of production is rendered almost impossible; they are transformed into closed worlds, into the feudal kingdoms of particular capitalist organizations. It is very important for the future to note here that economic necessity imposes itself in these circumstances in a way which is significantly different from what happens under the law of value, so that political economy opens a new chapter when it analyses these forms, in so far as a transformation begins in that very concept of 'law', with which we are concerned when we study free competition.

During the world war, under the influence of the changes which that war brought into the economies of the contending states, especially into the economy of Germany, which was almost completely isolated from the world market, the monopolistic tendencies of capitalism received a powerful impetus to further development, bringing the economy of such a country as Germany to the system of state capitalism. The demands of defence obliged the state to carry out an accounting of all the productive potentialities of the country and to distribute war orders between the trusts according to a definite plan, and led to compulsory cartellisation of hitherto disunited enterprises. There began a forced development of some branches and a compression of others—the redistribution of the country's productive forces according to a definite plan. Prices were fixed by the state, and thereby the state regulated the level of surplus value, that is, actually distributed it among the capitalists. The shortage of raw materials made it necessary to centralize

supply and called into being the famous committee for the supply of raw materials to industry, headed by Rathenau. The regulation of the whole of capitalist production by the bourgeois state reached a degree unprecedented in the history of capitalism. Production which formally remained commodity production was transformed *de facto* into planned production in the most important branches. Free competition was abolished, and the working of the law of value in many respects was almost completely replaced by the planning principle of state capitalism.

In the Entente countries the economic system of the war period was state-capitalist to a considerably smaller extent, but there too the tendencies in that direction were very strong. In Britain, in particular, the Ministry of Supply headed by Lloyd George carried out a very far-reaching regulation of nearly all large-scale industry, and not only war industry.

In general, the war period revealed with complete clarity whither the system of monopoly capitalism is tending; it showed clearly that the present-day economic system is objectively quite ripe for socialist planned production and that everything depends only on the coming of the master, that is, on the action of the working class.

When the war ended, when the 'nightmare of a compulsory economy' ended for the bourgeoisie, and their economists hailed the rebirth of the era of free competition, it turned out that the monopolistic tendencies of world capitalism not only had not come to an end, but had entered upon a fresh and more decisive phase.

When during the war there occurred a partial break-up of world economy as a comparatively connected economic whole, when a big step backward was taken from that world division of labour which had been attained before 1914, the economic autarky of the separate national economic units was sharply manifested. This autarky was further enhanced by the ending of the circulation of gold and the passing over of all countries except America to the system of paper currency. The value-relations of production in world economy penetrated with difficulty into the economics of the separate countries, not only because of the reduction in the absolute amount of world trade, not only because of the increase in tariff barriers in a number of states, but also because there was a reduction in contact between the commodities of the various countries and world money, gold, as the yardstick of value on the

world market. The gradual restoration of world links; the rise in production from the post-war level; the increase in the circulation of world trade; the partial restoration of the old proportions in the world division of labour; finally, the need to supply American credits to Europe's economy, exhausted by the war, all led to a reduction in autarky. In Sweden and Britain there was even a return to the gold standard.

However, the almost-attained recovery of the pre-war situation as regards the amount of world production and exchange is not at all *ipso facto* a recovery of all the regularities of the pre-war economy and the old proportions in the distribution of productive forces between separate countries. The restriction of the law of value which began with monopoly capitalism not only did not cease as a result of the war but acquired still greater force after the war, and assumed a very distinctive form.

Before the war, the country where trustification of industry had gone furthest was America, and the country where fusion of bank capital with industrial capital had gone furthest was Germany. The outgrowing of national frameworks by monopolistic tendencies, that is, tendencies towards the formation of world trusts, had developed mostly from these two countries. The war ended with the defeat of Germany, and the economy of that country no longer plays its former role in world economy. But the advance of America to the first place in world economy, which had begun before the war, went forward extremely fast during and after it. *The fact that America has acquired the dominating role in world economy means that the monopolistic tendencies of American capitalism have also acquired the dominating role in it, and they are at this stage impetuously breaking out beyond the frontiers of America's national economy.* Lenin forecast the possibility of such a turn of affairs in his book *Imperialism*, and also, especially clearly, in a passage in his article 'A Caricature of Marxism and Imperialist Economism'. He there wrote—'Economically, Imperialism is monopoly capitalism. In order that monopoly may be complete, competitors must be eliminated not only from the home market (the market of the given country) but also from the foreign market, from the whole world. Is it *economically* possible "in the era of finance capital" to eliminate competition even in a foreign country? Of course it is: the means to this end are—financial dependence, the cornering of sources of raw materials and the buying out of

all the competitors' enterprises.'¹ If financial dependence implies also conquest by the credit system we shall have here, basically and in the most general features, a picture of what we see at the present moment in the relations between American monopoly capitalism and Europe and the whole world.

First, the subjection of the whole of world economy to the value-relations of America was expressed in the fact that only America remained on the gold standard and therefore that it was only in America that gold came, as in earlier times, into direct contact with the world of commodities. Of course the American dollar played and still plays the dominating role as yardstick of value, because it is connected with its gold base. It has not been torn from this base because of the quite exceptional economic power of America, which did not suffer from the war but profited by it. American dictatorship in the currency sphere is a reflection of the general economic domination of America over other countries.²

Secondly, subjection takes place along the line of credit. This is a very powerful lever of subjection, always and everywhere. Refusal of credits is the strongest method of pressure which American capital possesses, in relation both to the governments and to the capitalist circles of other countries. If a country is drawn into the orbit of American influence this way, at the same time pressure takes place on particular branches of industry in that country, applied by the appropriate trusts. One or other American trust which has monopolized production and distribution inside its own country drags into the orbit of its influence the trustified or untrustified industry of other countries. To the general pressure of American capitalism as a whole there is joined in the political and financial fields the pressure of particular trusts.

The third method is direct ousting of one's competitors from

¹ Lenin, Vol. XIII, p. 354. [*Collected Works*, Vol. XIX, 1942 English edition, p. 230.]

² It is interesting to recall that currency dictatorship has usually belonged, in the course of history, to that country which played the dominating role at any given moment in world trade and world economy. In the period when Phoenician and Greek trade was dominant in the Mediterranean Sea a very great role was played by the Greek and Phoenician talent. The florin ruled in the period when Italian merchant capital dominated the Mediterranean. The mercantile role of Spain brought the piastre to the forefront of inter-currency relations. Holland ruled not only with its fleet, its cloth and its trade generally, but also with the gulden. As the centre of gravity in world economy and trade passed to the 'ruler of the waves', the British pound's role advanced to the forefront. Finally, America's economic domination of the world has led to the dictatorship of the dollar.

the world market by superior quality or cheapness of product, and especially by credit facilities to the buyer. And along with this, movement in the same direction proceeds also by the most direct way and without any struggle, in so far as an ever greater share of all world production *in natura*, and so of the mass of the world's commodities, is concentrated on American territory.

The ever-increasing trend towards the autocracy of America in world economy, with the already-achieved autocracy of the capitalist monopolies in the trustified sections of American industry itself, automatically entails the extension of monopolistic tendencies from the American centre throughout the world. But the growth of monopolistic tendencies, in spite of the formal existence of free competition, inevitably entails a further restriction and transformation of the working of the law of value; now, however, not within the separate national economies, which have already achieved a high level of monopolistic development, but *in the arena of the world market as a whole*. This is the special feature of post-war economics. I will not dwell upon all aspects of this problem here but will perhaps return to it in a special study of world economy. I will dwell merely on those conclusions which are significant for our subject.

It is not accidental that, in the period in which free competition flourished, the dominant country in world economy, Britain, was itself a free-trade country. And, conversely, it is not accidental that in the period of monopoly capitalism the dominant country in world economy is the classical country of monopoly capitalism. But while, in the period when free competition prevailed, the other countries fought against British expansion by putting up tariff barriers and developing their own industries, the struggle against America and its monopoly tendencies does not at all take the form of a struggle on behalf of free competition against monopoly. American capitalism is superior to other capitalisms not only by its general economic power and enormous credit resources in commodity and money forms, but also by its technique, its higher productivity of labour. In fighting against American competition it is impossible for the other countries to appeal to freedom of competition. The position is quite the reverse of that. It is not Europe that fights against American monopolism on the basis of free competition, but American monopolism that often calls upon freedom of competition to effect the victory of

monopoly. The European countries fight against America's offensive in a very wretched fashion: either by tariff protection, the effectiveness of which does not grow (as in the nineteenth century) but declines, or by stopping the advance of industries, that is, by monopolistic distortions of free competition, for the sake of consolidating state-protected monopoly based on the backwardness of the given country; or else by begging for credits to restore the economy—that is, by fighting against American exploitation and monopolistic pressure in the same way as a poor man fights against exploitation by usury when he borrows a fresh sum of money, even bigger than before. Essentially, America subordinates the whole world to itself also, even if not mainly, on the basis of the law of value. But more interesting than this is the whole historical setting. The law of value is passing into the phase in which it is transformed and gradually dies out, also on the basis of the law of value.

American expansion cannot encounter an unbreakable resistance in any country of the capitalist world so long as the country undergoing attack and pressure remains capitalist. It is extremely important to note this fact. The very economic structure of the present day capitalist countries excludes the possibility of serious resistance to American conquest, because the already attained level of the world division of labour, of world exchange, with the existence of the huge and ever-growing economic, technical, and financial superiority of America over all the rest of the world, inevitably subjects this world to the value-relations of America. Not a single capitalist country can, without ceasing to be capitalist, break away from the operation of the law of value, even in its changed form. And it is just here that the avalanche of American monopolism falls upon it. Resistance is possible only, perhaps, on a political basis, specifically on a military basis, but just because of America's economic superiority this would hardly prove successful.

During war, especially present-day war, the economy of even a capitalist country undergoes a certain internal unification and is obliged to follow a uniform line not only in the sphere of political relations with other countries but also in that of the contact between the economy and the national economies of other countries. In peacetime, to secure a uniform policy on the part of the separate capitalist trusts, banks, and other organizations is a task of extreme difficulty for the bourgeois system, because fulfilment of this task

requires either agreement between all the basic interests of the largest capitalist organizations and separate enterprises, interests which never coincide, or else domination within the country by some one group of trusts and banks, ruling over the whole economy and subordinating to itself entirely the whole economic policy, including the tariff policy, of the state. This latter variant has proved unrealizable for contemporary Europe. The development of monopolistic tendencies in pre-war Germany and the development of these tendencies to a still greater degree in America was based on an enormous natural concentration of production which in its turn was based on a rapid development of the productive forces. In present-day Europe, with its poverty in capital, with its stagnation in production, with France and Belgium as the only exceptions, and they probably not for long, concentration of production in the American way and at the American rate is out of the question. And therefore the economic organism of the European capitalisms is in no state to put up a strong resistance to the pressure of American monopolism, and is yielding now in this sector, now in that. Essentially, even now, American capital could have made much greater conquests in Europe than it has made up to the present, conquests made, so to speak, by agreeing to Europe's requests for credits. It must not be forgotten, moreover, that America has not yet realized to the full all the possibilities of pressure in another way, pressure on the tariff policies of the European countries. America stands for an open-door policy wherever it can beat its competitors on a basis of free economic rivalry. But it may pass over to a system of forcible opening of these doors to itself, to America, when the down-at-heel industry of certain backward countries closes them against American competition. Where the system of advancing credit to European economy, with all its consequences for the extension of American monopolism throughout the world, proves inadequate, it may take the offensive in this way.

A struggle against American monopolism is possible only through changes in the whole structure of the given country, that is, through going over to a socialist economy, which would turn the country into a monolithic organism and would not allow American capitalism to get hold of one branch of industry after another, subjecting them to American trusts or banks, as is happening with the 'natural' contact between present-day Amer-

ican capitalism and the economies of other capitalist countries. *The pressure of capitalist monopolism can be resisted only by socialist monopolism.* A country which goes over to socialism, being economically and technically weaker than American capitalism in the period when it has not yet finished reconstructing its economy on the new basis, will struggle against it not with the economic superiority of its trustified branches of production but with the more highly *organized* structure of its whole economy. And this in its turn means that the further abolition of the law of value, that is, its abolition outside the historical frontiers of American monopolism, will proceed along the path of planned socialist organization of the economy in the countries which make an end of the capitalist régime. For Europe of today the old freedom of competition is impossible *in any sense*. Europe must choose between capitalist monopoly, externally bound to the monopolism of the United States, and internal socialist monopoly.

Finally, as an indication of the degeneration of the law of value as regulator of economic life, attention must be drawn to the consequences in the economic sphere of the degeneration of the bourgeois-parliamentary type of capitalist state into the state of the Fascist dictatorship. This degeneration affects one of the most important points—or, rather, *the* most important point—of market relations, the relation between the sellers of the commodity labour-power and its buyers. In the period when free competition reigned in the sphere of economic relations, the period when capitalism was describing an upward curve, it could permit itself the luxury of buying organized labour-power on the basis of the law of value of this labour-power. In the period of capitalist decline, however, with reduced reproduction and the growth of unproductive demand, it is obliged to introduce a new type of labour discipline, compulsorily organized and subjected to the Fascist state through the Fascist unions. And this means restricting the operation of the law of value on the labour market, to the advantage of the exploiting class. From this direction, therefore, the law of value undergoes a considerable change and distortion as compared with the epoch of classical capitalism. Unfortunately I cannot in this context offer a more detailed discussion of this problem, for the analysis of which the Fascist dictatorship in Italy has already provided sufficient factual data.¹

¹ [Paragraph (from 'Finally') added in Second Edition.]

From what has been said the reader can see that we have to deal with the law of value in our economy in an historical epoch when this law has been considerably undermined in bourgeois society itself, owing to the powerful development of monopoly tendencies in present-day capitalism, which are passing into a particular kind of monopoly through conquest by the American monopolies. This is important for us also in that our economy is obliged to intensify its economic, especially its trade links with world capitalism, with the world market. We need to know that this world market is now not like the one which Marx observed when he was writing *Capital*. Its spontaneity is quite different in character from what it was before; freedom of competition within it is very much more limited than before. And more and more distinctly is the gigantic silhouette of American capitalism outlined on the horizon of this market, thrusting its tentacles into nearly all the big capitalist countries and emerging as the fixer of prices on the world market.

*The Law of Value under the Socialization of Industry
in a Peasant Country*

If commodity economy was already 'undermined', as Lenin put it, in the period of monopoly capitalism, this process must have gone much further where *all* large-scale industry is in the hands of a proletarian state. But in so far as we are concerned with the nationalization of industry not in a typical industrial country but in a country where a large part of the values are produced in petty production, especially in petty peasant economy, to that extent we have here, alongside a further advance along the road to monopolism, tendencies of a pre-monopoly character which are stronger than, say, in present-day America. It is in this that the peculiarity of the Soviet economy consists. In our analysis of this economy we therefore need to trace not only the historical transition from capitalist monopolism to socialist monopolism but also to weigh all the consequences of the existence of an enormous province of simple commodity production. The peculiarity of our Soviet economy consists precisely in the fact that post-capitalist forms of production confront 22 million peasant holdings, together with craft and artisan industry, while purely capitalist or state-capitalist forms are comparatively weak. Under such conditions, the law of value and the planning principle enter into competition

in an extremely distinctive setting, in which there is a very marked separation, in the spheres of production and exchange alike, between the united fist of the state economy and the unorganized sea of simple commodity production. The distinctiveness of the situation is still further increased by the fact that large-scale socialist production confronts petty production in the shape of *industry* confronting *agriculture*, that is, the confrontation of socialist forms with simple commodity production is also a confrontation of two different spheres of application of labour.

Both American monopolism before the war and now and also German monopolism before the war grew up on the basis of a mighty concentration of production and a tremendous predominance of industry over agriculture. Both American and German capitalism achieved a very great degree of subordination of their respective countries' petty and medium production, both industrial and agricultural, to a small number of powerful organizations of merchant capital, trusts, and big banks. In particular, in America the farmers' holdings, in spite of their comparatively scattered nature, as compared, for example, with large-scale agricultural production in Britain and Germany, were completely subjected by means of credit, by means of supplies, and by means of the control of outlets by big trading firms, banks, steamship, elevator and refrigerating combines, and so on. Despite the fact that the American farmer, as a producer of grain, competes on the world market with the farmer of Canada and the Argentine, the peasant of Rumania, the Ukraine, and so on, despite the fact that America's agricultural production is not the production of a single agricultural trust, nevertheless this production is sufficiently bound up organizationally to American trade, industrial, and banking capital, which overflows the barrier separating agriculture from industry and achieves a certain connexion between the two branches (within capitalist limits), especially in the sphere of exchange and credit.

Conversely, in Soviet economy the connexion between trustified state industry and the independent peasant holding is infinitely weaker in respect of exchange and of credit, while the *organizational* structure of industry is historically of a higher type than in any capitalist country. As a result we must inevitably have a far-reaching atrophy of the working of the law of value within the state economic sector, along with a very great development of the working of the law of value beyond the limits of the state economy

and with continual blows struck by market spontaneity against the entire state economy as a unified whole. It is this circumstance, as we shall see below, that explains the predominant type of all the upheavals and depressions which we have suffered, are suffering, and will go on suffering in our economy; together, of course, with those complications which are bound to arise from the connexion between our economy and the world market.

On the other hand, as a result of the general economic and technical weakness of the state economy, the socialist character of the production relations within it can emerge more clearly only at a definite state of development of the productive forces. At the same time the planned guidance of the economy often breaks down, owing to the inadequacy of reserves for economic manœuvring¹ and in spite of the fairly highly-developed structure of the state economy as a collective economy. From this comes the very great danger in the theoretical analysis of Soviet economy that one slides over from analysing *production-relations* to measuring the level of our wealth, that is, one slides into the vulgar-naturalistic point of view. There have been numerous examples of this happening.

After these preliminary observations I now pass to a concrete analysis of what categories of capitalist economy apply in our economy, and to what extent.

Commodity, Market, Prices

I begin my analysis with these three most general categories because it is impossible to separate them in study. We counterpose to commodity production socialist planned production; to the market the accounting of socialist society; to value and price the labour costs of production; to the commodity the product. The clarity with which we can theoretically counterpose these concepts one to another contrasts with the difficulty we experience in analysing them when we are studying the forms transitional between capitalism and socialism. At what moment does quantity here

¹ In his pamphlet *Autumn Difficulties and Problems of Agricultural Development*, published by the People's Commissariat of Finance, Comrade Sokolnikov, with whom I disagree on a number of fundamental questions of economic policy and the theoretical evaluation of our economy, has in a quite correct and timely fashion drawn attention to this fact. In itself this fact is only a fresh weighty argument in favour of my view that the law of primitive socialist accumulation is, along with the law of value, the basic law of our economy.

change into quality, at what stage of the development of socialist economy do those production-relations which in science correspond to the categories of political economy become dissolved?

Let us make a study of particular parts of our economic field. Here we have railway transport, which is entirely in the hands of the proletarian state. The People's Commissariat of Communications orders locomotives, carriages, rails and so on from Glavmetall.¹ Are the prices of these orders determined by market relations? These prices are not determined by market relations within the country, because in the country there are no private-capitalist producers of locomotives and carriages, nor is there any private metal-working industry.² These prices are not determined by the market relations of world economy, either, for the order are given to be fulfilled internally, in complete independence of the corresponding prices on the world market.

The basis of the placing of orders within the country is not the law of value of world economy. The prices are formed by definite planned calculation, they are adjusted to the level of the cost of production in the works of Glavmetall, either with calculation of a certain profit for the customer, or without any profit, or even with a foreseen loss in those cases where the state consciously fixes prices below cost of production and gives the factories a subsidy from the budget. All this is decided not by the spontaneous methods of competition, but by agreeing the financial plan of the particular branches first of all with the budget of industry as a whole and then with the state budget. The influence of the world market is felt, under these conditions, only in the fact that we continually compare our internal prices with foreign prices and derive from doing this a stimulus to apply ourselves to reducing the cost of production where it is higher than abroad. This is also the influence of the law of value of the world market, but it appears in a special way; the world market here makes itself felt on the whole organism of our state economy as on a unified organization. In this way it would make itself felt here also if we were ever to import a certain proportion of our railway equipment, owing to inadequate domestic production.

¹ [Central Administration of the Metal-Working Industry.]

² But this does not mean that prices are not determined *at all* by market relations. If depreciation charges were to become excessive and impossible both for consignors of goods and for passengers, people would in many cases begin to go back to transportation by cart. (Note to the Second Edition.)

If we proceed further and add to the example of the transport order to Glavmetall the whole mass of cases in which the state is *the monopolist producer and the only monopolist consumer* of some products of its own trusts, we shall have before us the sector of the state economy with the *minimum influence of the law of value on prices*. In these cases where the state appears both as monopolist producer and as only buyer of its own monopolized production, relations between state trusts are similar to the internal relations of a single combined trust. *Here the category of price is purely formal in character*, it is merely the title to receive from the common fund of the state economy a certain sum of means for further production and for a certain level of expanded reproduction. How large quantitatively this sphere of state economy is, and how it changes from year to year, we shall see in that part of the book which will be devoted to our industry. Here we can speak of a certain influence of the law of value from one direction only, by way of labour power and the payment made for it. We shall pass quickly to this question in relation to the whole of our state economy. In the example we have quoted the role of the market beyond the limits of the state economy is reduced to a minimum, and the concept 'commodity' in relation to the locomotive produced at the Sormovo factory is virtually replaced by the concept of a state product manufactured for the state.

Let us go on further, as the influence of the law of value gradually increases. Here we have before us the textile engineering industry. Some of the machine-tools and other equipment we make ourselves, some we import from abroad. The influence of the world market is felt in that we can obtain machine-tools dearer or cheaper, depending on the situation in capitalist engineering. If we obtain them cheaper, then we can either buy more of them or release some of our means to meet other needs of the state economy. Here the law of value encounters the law of primitive socialist accumulation, but it has no influence on the price level of the machine-tools we produce ourselves, because the prices of internally-produced goods are not determined by world market prices. Behind the shield of socialist protectionism we preserve, develop, or bring into existence the different branches of production of means of production, guided by our ideas of what is economically expedient for the entire state economy. Here too the influence of the law of value is extremely limited; but besides what has

been mentioned, it can have an influence, especially by way of depreciation charges, on the prices of textile articles on the home market. In just the same way the world market influences our internal economic relations when we import equipment which is not produced at all within the country. Here the world market can have an influence either on the amount we accumulate or on the depreciation increments on the prices of consumer goods which are produced with the aid of the imported equipment.

The law of value of world economy can also exert its influence not only as a factor in the distribution of material resources but also as a factor in the *distribution of labour* within our economy in cases when, not sporadically but systematically and over a long period, we have to hold back, contract, or completely put an end to the production of certain means of production in those particular spheres where, given certain prices on the world market and a certain level of development of our engineering industry, it would be inexpedient to maintain or to develop our own production. But in this case the question would be decided mainly on the basis of a calculation of all the production of means of production needed for these resources, and the prospects of improving and cheapening our own products. The spheres in which we import means of production can change, generally speaking, not only in dependence on the movement of the prices of the products concerned, abroad and at home, but also through factors which result from an optimum worked out in a very complicated way in accordance with a general economic plan. Here is an example. In conformity with import possibilities we may import, say, equipment costing 300 million a year. From our conception of the optimum for the whole process of re-equipment it may seem to us suitable, instead of using all the 150 millions set aside for importing means of production with the biggest difference between home and foreign prices, to import only 100 millions' worth of the machinery in question, and use the remaining 50 millions to extend internal production, paying considerably more for it in *chervontsi*, and increasing the importation of less cheap machinery of another type. In this case the operation of the law of value will be completely distorted by the interests of the economic plan as a whole, that is, by the interests of expanded reproduction in an economy of the socialist type—a case which is, as a rule, quite impossible under conditions of capitalist reproduction. In general, the further

we continue, the more we are obliged to rationalize our imports so as to make the greatest possible use of the advantages of the world division of labour, that is, by importing more of those machines the construction of which at home is less advantageous *under the given economic conditions*.¹

As regards imports, for the state economy, of means of production which are not manufactured at all in the country, the law of value of the world market merely influences accumulation and depreciation through the fluctuation in prices, without introducing changes into the distribution of labour power.

Let us now pass to the production of means of production, when the state is the monopolist producer but not the monopolist consumer. We are concerned here both with those means of production which by their essential nature can figure only as means of production and also with those which, depending on the way they are used, can figure either as means of production or as consumer goods. An example of the first kind is equipment and metal for private economy. Examples of the second kind are kerosene, alcohol, fuel, which enter into technical consumption and also into individual consumption. In the part of production of this kind which goes to the state economy, we have a case which we have already studied. Here the state produces for itself, and the prices fixed by the state, for example, the price of metal for Gomza,² the prices of petroleum for the railways, and so on, have only an external, formal, resemblance to the prices of the capitalist market. In essence, what occurs in this case, under the price form, is a planned distribution of resources within the unified organism of the state economy. We know that very often the state fixes one price for the sale of petroleum to the railways and kerosene to the factories and motor transport, another price for the internal private market, and a third price for export. It is, however, impossible to identify this part of production with the case we have examined above, when the state appears as both monopolist producer and

¹ Comrade Trotsky drew our attention in quite timely fashion to the problems of our link with world economy in his work *Towards Capitalism or Socialism*. We badly need, for each year, taken with all its special features, a *scientifically* worked-out import plan, not a mechanical summation and reduction of the 'requests' of the different trusts. A mere summation of this kind is not an import plan for socialist industry, but a crude adaptation of imports to exchange possibilities, without establishing a well-thought-out import optimum.

² [Association of State Metal-Working Plants.]

monopolist consumer. In those cases when the bulk of the products do not go to the state sector, the producing organizations are already under strong influence from their main consumers. Take, for instance, the production of agricultural machines, of which only a small part goes to the state farms, the overwhelming majority being sold to the peasants. True, in so far as the state is the monopolist producer, in so far as it is not threatened by any internal competition, it can fix prices here too, guided by its own economic plan, which may be constructed not only on the basis of the idea of expanded production but also on that of restoring the equipment of the peasants' economy (as this is carried out in practice by our agricultural machinery supply service, with its prices which are extremely favourable to the peasants and which sometimes involve the state in a loss). There are definite limits to planning here, however, namely the amount of effective demand for the products in question among the consumers in the sphere of private economy, and also, where exports are concerned, the capacity and prices of the foreign market. A consumers' strike is the limit which arises to state planning whenever the state's prices exceed the level acceptable to the private market. In this case, not only the process of expanded reproduction but also that of simple reproduction may be checked in the relevant branches of the state sector. The law of value affects in this case not only the amount of accumulation in the state sector but also the distribution of productive forces in it, that is, above all, the distribution of labour power. Since there is no possibility of bringing about a reduction in prices by organizing competing enterprises with a lower cost of production than the state's, or with a slower rate of accumulation, the pressure on state production proceeds along the line of restricting demand and directly refusing to buy at all. We had an example of this kind in our economy, as is well known, in the autumn of 1923. Conversely, when the effective demand of the private market exceeds the amount of state production, the range of economic manœuvring by the state is widened, the possibilities of accumulating at the expense of private economy are extended, the state is master in fixing prices within the limits determined by covering the cost of production, on the one hand, and exhausting the entire effective demand, on the other—taking into account, of course, the influence of prices on the volume of demand.

From the examples quoted the reader will see that when the

state is the monopolist producer but not the monopolist consumer of means of production, this category of prices assumes a dual character: on the one hand it is, as before, a method of calculation, another name for planned distribution of resources within the state sector, and on the other hand, where there is exchange between the state economy and private economy, it is a function of primitive socialist accumulation, limited by the working of the law of value. And in this lies the second duality of the role of price in the case we are studying. If private economy receives a smaller amount of means of production, this has an influence both on its fixed capital and on the distribution and application of labour power. It is the same in the state economy. In other words, the result of the clash between the law of primitive socialist accumulation and the law of value entails a corresponding distribution of productive forces, including labour power. While on the capitalist market under free competition price is a function of value, the state-monopolist's price on the private market is a function of primitive socialist accumulation, limited by the law of value. But we will deal with this in more detail below. There we will also examine how the law of value makes itself felt likewise through growth in increments in retail trade, operating when there is a goods famine as a factor of *capitalist* accumulation.

Let us proceed. We will examine the situation when the state is neither a monopolist in the *production* of means of production nor a monopolist as a consumer. Winnowing machines, blacksmith's products such as axes and nails, and further, the repairing of equipment—these are goods and services produced by both the state economy and the private, and bought by both the state economy and the private. I deliberately cite means of production which in their concrete forms are instruments of labour, and not raw material for further production, of which I will speak later. Generally speaking, this part of production is small, quantitatively, because handicraft and leased-out industry cannot here play any considerable role, except perhaps in repair work. If the predominant part is here played by state production, then, naturally, market prices will in general and on the whole be the prices which the state fixes for its products, and which it fixes on the basis of their cost of production and its level of accumulation. Under these conditions, the competing enterprises or independent producers, if their cost of production is lower, can either accumulate more by

trading at the state's prices, or else can sell their products quicker by selling below the state's prices. If their cost of production increases as compared with the state's, the competitors will be ruined. It is not they who rule the market. The state's prices in the given case will play exactly the same role as in the case we have just examined, and only in those few and relatively insignificant lines of production where the competitors will produce more cheaply than the state (for example, small repairs of various kinds) is it possible that there may be a contraction of the state enterprises, with a shifting of labour power to other lines of production. Here the law of value happens to operate in the same direction as the law of socialist accumulation. But the branches examined are so few and their role in the production of means of production is so small that we have dwelt upon them only in the interests of completeness of classification.

Let us now turn to branches which are incomparably more important, especially the production and sale of those means of production which serve as raw material for state industry, and which are produced to an overwhelming degree in private economy, or more precisely, in the peasant economy. To this category belong all the industrial crops, such as cotton, flax, hemp, oil seeds of all kinds, sugar beet, potatoes for distilling, and so on, and also animal raw material: hides, wool, sheepskin, and so on. What is the role of the law of value here?

It is quite obvious that its influence must here be incomparably greater than in the case when, say, the state produces machines from metal smelted in its own blast furnaces, using ore and coal extracted from its own mines. Industrial crops and animal raw material are produced to only a very small extent on the state farms; the bulk of these supplies comes from the area of peasant economy, that is, simple commodity economy. On the other hand, the state is not always the monopolist consumer here. While cotton and flax are predominantly bought by the state, hides are largely made into footwear, harness and so on in handicraft, artisan, and semi-artisan fashion. This means that here the state purchasers experience very strong competition from private economy. It would, however, be quite wrong to suppose that the branch of the means of production we are examining is an arena where the free market and the spontaneity of the law of value are *completely* dominant. We have had a fairly rich experience on this

account in the last few years, and it tells in quite a different sense. Let us examine more closely what happens here.

We begin with industrial crops and raw materials where the state is the monopolist or at least the predominant buyer. Such are cotton, flax, hemp, oil seeds, sugar beet, and so on. The activities of the cotton committee and of the procurement organizations for the purchase of flax provide interesting experimental proof of what a powerful influence state industry can exert on the private market, and thereby on all petty production, when it is the predominant consumer and functions in an organized way, as a single economic organism. It is not so much the market that here dictates prices to the state as the state that dictates to the market. It is known that cotton prices have been fixed up to now, and are at present fixed, not on the free market of Tashkent, but in Moscow by the planning organs of the state. And up to now there has been no breach of the prices fixed by the state, in spite of the fact that these prices have always and to a very considerable extent been lower than world market prices. The state procurement prices for the raw materials listed are an extraordinarily interesting case of a certain resultant of the law of value and the law of primitive socialist accumulation.

How does the law of value mainly show itself here? It shows itself in the fact that state planning in the field of procurement prices comes up against two frontier-barriers established by the law of value, a maximum and a minimum.

The maximum barrier where export crops like flax and hemp and import crops like cotton, soft wool, and so on, are involved, is the average price on the world market. There is no point in the state's buying, for example, cotton within the country at a price higher than the world market price, unless it is compelled to do so by lack of import potential as a result of insufficiency of foreign exchange. In exactly the same way the state will avoid buying flax for its own linen industry and for export at prices which, together with expenditure on transport and other overheads, will exceed the selling price on the European market. The law of value of the world market thus sets a limit on the maximum side.

How does the same law determine the minimum level?

The minimum level is obviously determined by the expenditure of labour upon and the degree of profitability of a given crop so far as the producer is concerned, as compared with other crops pro-

duced by peasant economy. If the state fixes such low prices for flax that it is more profitable for the peasants in the flax-growing regions to replace flax by grain crops, if low prices for plantation beet and cotton grown by the Central Asian peasants result in an increase at the expense of these crops in the area sown to wheat, and so on, then we have before us a barrier on the minimum side, laid down by the law of value in simple commodity production. Everybody who is familiar with the work of our Central Cotton Committee knows what efforts it has had to make in order to ensure, by fixing appropriate cotton procurement prices, on the one hand, and by the dispatch of wheat to Turkestan, on the other, that the peasant of that area, who during the war went over from growing cotton to growing wheat, returns again to growing cotton and increases the area planted to cotton to nearly its pre-war level. Similarly, the catastrophic fall in the cultivation of flax in the north-western regions during the famine years and the replacement of flax by grain crops has been checked, and the peasants have gradually gone back to growing flax, only because the state's procurement price policy has in every way facilitated this process. Had this not been so, rye would even now still be being sown where flax has reappeared.

We see from these examples how the operation of the law of value appears in this sector of the U.S.S.R. economy. Now let us examine how the operation of the law of socialist accumulation shows itself here at the same time, restricting the law of value—or, if you like, restricted by it.

As we have said already, the limits of the domain of the state planning principle in price policy are set by the world market prices on the one hand and on the other by the prices which bring one to the verge of a cessation in the growing of the given crop. The field for manoeuvring is very wide here; probably it extends to not less than 30–40 per cent. below the world price. The state keeps procurement prices at a level which is adequate for the given crops to be extended but below the prices which would be formed if there were free competition by foreign purchasers, and by home purchasers if our industry were not state-owned but private and therefore did not come on to the raw material market in an organized way. Everything that distinguishes procurement prices from the prices which would be formed on the basis of free competition by bourgeois purchasers should be fully attributed to

the operation of the law of primitive socialist accumulation. When the state, on the basis of an organized system of procurement, keeps prices at a certain level and even reduces them in spite of a growth in demand which outruns supply, as happened in 1925 with flax and cotton (their prices were reduced a little as compared with 1924), we have before us a vivid example of the restriction of the law of value by the planning principle, in this case taking the form of the law of primitive socialist accumulation. At the same time we can see from this example in what sense it is possible to speak in this connexion about a *law*. While in bourgeois society the law of value makes its way only as the average resultant of pressure and resistance, in this case the state proceeds by foreseeing the effect of resistance, not surrendering to it but consciously restricting its rate of accumulation, so as to limit to a definite level both the rise in prices and their compulsory reduction. While the elemental law of commodity production, the law of value, can be counterposed to the accounting of a fully-formed planned economy, where the working of this law has been replaced by the conscious calculation of socialist statistics of the production and distribution of *products* (and not of commodities), the situation is different during the *struggle* for planned economy, in the period in which the law of value is being placed under restraint. The struggle for the planning principle is above all a struggle for the accumulation of material resources by the state economy, to ensure the increase of certain production-relations at the expense of others. This accumulation is restricted by the working of the still-existent law of value, that is, it is subjected to the influence of spontaneity. From this point of view the law of primitive socialist accumulation is the form in which there takes place the dialectical regeneration of the spontaneous regularities of an unorganized economy into a new way of achieving equilibrium in the economic system, secured by the very great role of conscious foresight and practical calculation of economic necessity. Is this a law in the generally accepted sense of the word? To a very great degree the answer must be yes rather than no, if we take the entire economy of the country as a whole, and not only its most organized section. We encounter the same duality, the same contradictions of development, also in all the categories of capitalist economy which we are analysing on the basis of our own economic system.

To finish with industrial raw material produced in peasant

economy we will mention the following point. A very big role in the mastering of the market for raw material is beginning to be played by the system of state credit, the system of paying advances to the procurement officials. This system, familiar in capitalist circumstances, will in our country restrict the effect of the law of value to a very substantial extent, in that the advances are made not to competing purchasers of raw material, but to the unified state economy. On the other hand, it is quite obvious that the price policy of the state, as the predominant purchaser, can have a profound influence on the distribution of productive forces in the peasant economy, encouraging certain crops at the expense of others and introducing an element of planning into the territorial distribution of crops in peasant economy.¹ The system of planned prices is here transformed into a powerful lever whereby industry influences peasant economy, and the faster our industry grows the more strongly will it by economic means draw towards itself the peasant production of raw material, subordinating it to a socialist plan. Here too, price is transformed from a category of commodity economy, a function of the law of value, into something transitional towards socialist calculation under conditions of exchange between town and country, although the commodity of peasant economy, paid for at a firm price by the state, has in the sphere of production still not been shifted along the road to its transformation into a product. Here, finally, money, as within the state sector, has slightly changed its function. It is particularly interesting to trace this in the calculations of Glavkhlopkom² in the field of prices for cotton in their relation to prices for wheat.

As regards the procurement of raw material which is also bought in large quantities by private producers, or which undergoes processing in the peasant economy itself, here the regulatory role of the state is considerably less and the effect of the law of value considerably more powerful. Quite often, the state's maximum

¹ See for a more detailed treatment of this matter my pamphlet *From NEP to Socialism*, pp. 99-103. Incidentally, I should like to mention something in this connexion, as a curiosity. S. V. Chlenov, who wrote an extremely disapproving review of this work in the third issue of *Press and Revolution* for 1923, mentioned among its shortcomings a completely unsubstantiated (as it seemed to him) forecast to the effect that the Donbass, five years after the end of the civil war (that is, in 1926), would achieve the pre-war level of coal production. Unfortunately for the reviewer, it is precisely in 1926 that the Donbass is coming up to its pre-war output.

² [Central Cotton Committee.]

prices are exceeded in this field by private purchasers, which obliges the state either to change its maxima or else to stop purchasing, with the risk of leaving its enterprises without raw material. In their turn, fluctuations in procurement prices are inevitably reflected in calculations relating to finished articles, so restricting the state's scope for planning. In addition, if, say, the prices paid for raw wool seem unprofitable to the peasants, the latter increase their own production of felt boots, homespun cloth, and so on. In this way the law of value influences the corresponding branches of the state economy. A weakening of the influence of the law of value will perhaps be achieved in this sphere only through a cheapening and extending of state production, which will increase the influence of the state as the chief purchaser and will render domestic processing of their raw materials unprofitable to the peasants. But this advance depends, of course, entirely on success achieved along the whole front of primitive socialist accumulation.

Let us now pass from the production and procurement of means of production to production of consumer goods. It is quite obvious that here the influence of the law of value is on the whole considerably greater than in the field of production of means of production. Abstracting ourselves for the time being, as we did before, from the methods of paying for labour power, that is, from the labour market (if it is permissible to use this term), let us trace the influence of the law of value from the other end of the problem.

The characteristic peculiarities of the production of consumer goods as compared with the production of means of production are, from the point of view of our study: (1) the greater role played by the competition of private economy, in production and in sale; (2) the greater influence of the law of value as regards the fluctuation of prices of raw material; (3) the greater and more direct dependence on the effective demand of private economy than on that of state production; (4) the greater influence on retail prices of the relation between supply and demand.

The extent of the competition of private economy in production and sale is quite obvious from a mere enumeration of the various branches. Take the food industry, with the great role played in it by private bread-making, sausage-making, fishing and processing of fish products, pastry-making, private brewing of beer, even rural distilling—all these branches, which require neither a lot

of equipment nor much circulating media, and which have a quick turnover of capital, are more accessible to petty production and petty capital. Here we have such giants of state monopolism as the sugar industry, and alongside it the milling industry, with a predominance of private production. The same very great role is played by petty production in the processing of hides, wool, wood, hemp, and the manufacture of clothes. The largest branch of the state economy, manufacturing industry, also comes up against a considerable amount of competition by petty production, which becomes harmless only at a certain stage of the development of the productivity of labour, with a high level of technique in large-scale production.

The state production of consumer goods is further subjected to the influence of the law of value in so far as the state obtains its raw material either from private production inside the country or by importing it in large quantities from abroad. What the position is in respect of internal purchases we have already discussed. Here the operation of the law of value is markedly limited owing to the organized character of the state economy. As regards imported raw material, here the waves of the world law of value beat upon state industry, through the door of imports; calculations in relation to production have to be modified to a certain degree in accordance with the world prices of cotton, soft wool, rubber, and so on. A weakening of the influence of the world market is to be achieved in this sector only through the development of the internal production of raw material; our country has, as we know, rich prospects of achieving this so far as cotton and soft wool are concerned.

The third form of dependence of the production of consumer goods on private economy is its dependence on effective demand outside the state sector. We have in mind here almost exclusively the effective demand of private economy, in so far as regulation of the effective demand of state workers and office-workers, if we leave out of account the market competition offered by artisan and petty industry, depends on the workers' state itself, on its wages policy. If the prices of state products are too high, this can lead either to buyers partially ceasing to buy, with an increase in the domestic working-up of a number of articles, something we have already discussed, or to an actual consumers' strike. The first method is the more possible precisely in the branches which make

consumer goods. The peasants are not in a position to make ploughs for themselves, and when these are too dear they intensify their use of old equipment, up to the point where this has to be thrown away or repaired. In the production of consumer goods, that is, clothes, footwear, foodstuffs, the peasants have much wider opportunities for getting round the back of state industry. As we have already pointed out, however, this circumvention can take place only when the cost of production of industrial articles is very high.¹ It becomes more difficult as more progress is made in the productivity of labour in large-scale industry compared with that in domestic production. And this means that with the growth of productivity of labour in urban industry there is automatically also an increase in the state's possibilities for planned manœuvring, the possibilities of primitive socialist accumulation at the expense of private production.

The law of value shows its influence in a different way when there is a goods famine. Generally speaking, the goods famine we have in mind, that is, a famine of industrial goods, is the result of disproportion between industrial production and the country's effective demand. Under conditions of free competition the disproportion would be overcome in the normal way, that is, by a rise in prices in the branches where production was inadequate leading to a rise in the profits on the capital invested in these branches, which would then immediately bring about a flow of new capital into these branches, fresh construction, and eventually an extension of production up to the amount corresponding to effective demand, and perhaps above it. In this way the goods famine would be eliminated, and the rise in prices, having played its part in bringing about the new arrangement of productive forces, would be checked. The problem could also be solved in another way, in addition to the one described, that is, by increasing imports of foreign products, if the customs duties made this possible. Thus, on the basis of the working of this law, a disproportion in the distribution of the productive forces and a goods famine could be eliminated.

However, when 80 per cent. of industry belongs to the state, elimination of disproportion is possible, if we exclude an increase

¹ A big part is played in this process by the existence of large-scale disguised unemployment in the countryside—the product of agrarian over-population; but there is a cure for this too, in a more rapid industrialization of the country.

in imports, only on the basis of planned expansion of state industry, up to the level of the increased demand. Only in part and within very modest limits can a rise in prices lead to an expansion of small artisan and craft production in the branches gripped by the goods famine. A goods famine is a warning to the state which guides industry, it is a demand that proportionality be established, a demand which is screamed out by the country's entire economic organism. But let us suppose that, either as a result of a mistaken economic policy by the state in the particular year, or else such a mistake made in the preceding year, the consequences of which appear a year later, or as a result of insufficiency of new capital and limitation of import possibilities, the state does not expand production in accordance with the growth of effective demand. What shall we have then? We shall then have, on the one hand, an acute increase in retail prices in the branches where the goods famine is being strongly felt, along the whole line of private trade, that is, an actual increase of 40 per cent. in the total retail turnover, if we take the example of 1925. On the other hand, the co-operatives, under the pressure of market forces, will inevitably retreat along the line of least resistance, that is, will go beyond the authorized retail additions to the state's wholesale prices. Thus the law of value will modify the state's policy of firm, planned prices at this point too. Reduction of the trusts' selling prices in the branches where an acute goods famine exists, since it would not achieve a reduction of retail prices, would be quite meaningless from the practical standpoint, as well as illiterate from that of economic theory.¹

By and large we should have, as we had in fact in 1925, an operation of the law of value not carried through to completion and therefore quite deformed and distorted, because this law would be capable of bringing about an increase of retail prices but incapable of causing, through this instrument of increased prices, a redistribution of the country's productive forces in the direction of more rapid industrialization. To employ a physiological analogy, we should have an *inhibited reflex of the law of value* which did not

¹ I remind the reader what a hail of objection, misunderstanding and distortion had to be endured by the author of lines in this sense, written in the chapter of this book dealing with socialist accumulation. Now, of course, there will be no objections, after the state has had to pay tens of millions, if not more, for an experience of the opposite policy. But there will be no public admission of their mistakes by those who objected. We have not yet matured to that stage.

pass from the sphere of distribution to the sphere of production. Private trading capital would rake in hundreds of millions, but this would have almost no influence on production. It can be said that increased accumulation by private capital would be directly proportional to the force of action of the curtailed law of value.

The fact quoted is also a classical example (it should be studied in every course on the theory of the Soviet economy) of the economic consequences which ensue from a situation when the working of one fundamental law, in this case the law of value, is paralysed or, to speak more precisely, is half-abolished, but the working of the other law, which historically succeeds the law of value, cannot develop for one reason or another proportionally to the stage and rate of abolition of the law of value. It is quite obvious that if the primitive socialist accumulation of industry, including especially accumulation at the expense of private economy, on the basis of taxes and price policy, corresponded to the already attained level of the new production-relations, that is, the collectivization of industry and the demands laid upon it by the whole economy—demands which by the very structure of the state economy cannot be satisfied spontaneously—then there would be no goods famine and the inhibited reflex of the law of value would not have contributed tens or even hundreds of millions to the coffers of capitalist accumulation.

Leaving aside for the moment the general question how far the very fact of the socialization of industry demands with iron necessity a definite proportion of socialist accumulation in each particular year, I will quote merely a few conclusions from what has been said in this section. We have seen that the law of value—if we abstract ourselves from the problem of labour-power—exerts least influence in the sphere of production of means of production, when the state is both the monopolist producer and the monopolist purchaser of means of production. This means that heavy industry is the most socialist link in the system of our socialist economy, the link where the furthest progress has been made in the process of replacing market relations by a system of firm, planned orders and firm prices within the unified organism of the state economy. Here the process of transforming prices into planned redistribution of resources within the socialist sector, and of the commodity into the product, has gone furthest. In the field of state production of consumer goods the influence of the law of

value is considerably greater. It is greater to the extent that state industry is less monopolistic and that the role played by raw material in the calculation of cost of production is greater—raw material worked up in those branches of petty production which are most subjected to the working of the elemental forces of market relations. Finally, when we pass to private economy, that is, above all to peasant economy, the law of value is most restricted by the law of socialist accumulation in the branches of peasant production of means of production for large-scale industry, that is, in the production of industrial raw materials, which are in their overwhelming bulk purchased by the state.

Now, proceeding according to the degree of growth in the influence of the law of value, let us turn first to production in the peasant economy of consumer goods which are purchased by the state sector, and then to the branches where exchange among the peasants themselves predominates.

Let us examine, to begin with, the relative weight of this part of peasant production in the total production of the country and the commodity sector of total peasant production. According to the control figures of the State Planning Commission for the economic year 1924–5, out of the total of peasant products put on to the market, that is, out of 2,857 million roubles at pre-war prices, industrial crops represented 631.4 million, or 22.6 per cent.¹ From these figures we see that the share of industrial crops, with a restricted influence of the law of value, is quite considerable. The share of consumer goods is, however, notably bigger. In addition, one must keep in mind that, of the consumer goods sold on the market which originate from peasant economy, the state buys not the whole but only a part. For example, in 1924–5, out of 833.7 million poods of commercial grain, the urban markets and exports absorbed only 305.7 million, or 36.8 per cent. We must now ask what the situation is as regards the influence of the law of value in this sector of our economy.

It is quite obvious that with a very small quantity of production of its own in the field of grain crops and livestock-raising, that is, with a very small relative weight of production by the state farms,

¹ According to the control figures for 1925–6, production of technical crops as part of general agricultural production was to amount to 715.3 million roubles, together with hides to the value of 260.3 million roubles (gross production). Of this amount, goods to the value of 538.3 million roubles found their way on to the market. (Note to the Second Edition.)

the state is in no position to exert an influence on the consumer goods market from the direction of production, that is, from that basis of all regulation which plays a big role in the sphere of Soviet industry. Regulation under these conditions, generally speaking, is possible only in the sphere of exchange and credit. The state's influence on peasant economy through the credit system is as yet so slight that one can hardly talk about it as a lever of regulation. There remains only the sphere of exchange. The state is here a massive, organized purchaser for internal urban consumption and a monopolist in the external trade in grain, butter, and other food-stuffs. In this lie its advantages. But at the same time its freedom to manœuvre in the sphere of price policy is more restricted here than in any other sphere of mass exchange. The first barrier is set by the world grain market. World grain prices depend only to an inconsiderable extent on our Vneshtorg, since, of the enormous quantity of grain sold on the world market, we supply only a very small percentage. The fluctuation in world prices for grain crops presses upon our policy with all its force, as an external, objective force which is almost independent of us. On the other hand, the internal grain market is under our influence to a very limited degree, in so far as the greater part of the marketed grain goes to meet the peasants' own demand for grain, or to the unorganized part of the urban market, by-passing the state procurement agencies. Finally, we must also take into account the very important fact that our peasants, as a result of the sharp reduction in their tax burden, as compared with before the war, and also as a result of the abolition of the payment of rent for landlords' land, are faced to a much smaller extent with the need to make *forced sales* than was the case before the war.¹ This gives the peasants more opportunity to manœuvre with their grain surpluses, to accumulate big grain reserves, to increase their consumption of grain, and, what is most important, to *feed more grain* to their cattle and poultry. The possibility of extending livestock raising, including livestock raising for the market, makes the peasantry less dependent on the state's firm procurement prices. We must not, however, exaggerate in this connexion and generalize seasonal phenomena, or phenomena characteristic of particular years of the restoration period; we must also take into account the long-term tendencies of development. Emergency reserves can be accumu-

¹ See on this my article on the goods famine in *Pravda*, 15 December, 1925.

lated only up to a certain limit. The utilization of grain surpluses to extend livestock-raising is also confronted by a definite limit, in so far as the internal market for meat, for instance, grows comparatively slowly and the external market still requires great effort and large expenditure of capital (refrigerators, bacon factories, etc.) if it is to be conquered. The fundamental tendency in the sphere we are studying runs not towards a contraction but rather towards an expansion in the regulatory role of the state, if peasant economy is going to develop. Actually, the faster the marketable surpluses of consumer products in peasant economy grow, the bigger is the role played by their exportation and, consequently, the bigger is the role played in the sphere of purchasing by the monopolist controller of access to the external market for the peasants' production, namely, the state. Restricted on the maximum side by the prices of the world market, on the minimum side it gets bigger possibilities for manœuvring, and thereby the general dependence of peasant commodity economy on the state is increased. Here the influence of the state cannot quickly catch up with the regulatory role it holds in the buying of industrial crops, but undoubtedly this influence will grow in proportion as the production for the market and the export possibilities of our agriculture increase. If in years of harvest failure the forces of the market rage more strongly and may meet with regulatory limitation by way of state imports of grain from abroad, conversely, a wave of *decline* in grain prices in good harvest periods can be very successfully checked by a timely development of state grain purchases and an expansion in grain exports. The regulatory role of the state in the sphere of exchange will increase in proportion as those resources grow which the state is able to set aside to constitute its planned reserves in money and in kind. On the other hand, a big role in regulation through exchange will fall to the lot of our co-operatives, especially with regard to the scope for credit in agricultural exchange, not to mention the influence of co-operation in the sphere of production.

Finally, the sphere in which there is least planned regulation is the sphere of exchange among the peasants themselves, and likewise the sphere of exchange between peasant production and that part of artisan and peasant production which has either not at all or very little been taken over by large-scale collective production. As is known, the capacity of the peasant market for peasant

production of consumer goods, especially for grain, is very great. The number of peasant households that buy grain is enormous. In 1924-5 inter-peasant purchase of grain amounted to 528 million poods, or 63·6 per cent of all marketed grain.¹ It might seem that the state's influence on grain prices must automatically influence prices on the inter-peasant market too. This influence undoubtedly exists but it is restricted by the following circumstance. It is to an overwhelming degree the poorest peasants who buy grain. They buy both food grain and seed. They do not always pay in money, and far from always at market rates, owing to their bondage to the well-to-do peasants and kulaks. Very often they pay by working off the debt, that is, in the form of an exchange of grain for the labour of the peasant poor; which, given the enormous amount of surplus labour-power in the Soviet countryside, means a very high rate of payment for the grain which is sold to the poor. *State regulation of grain prices fails to touch these relations of exploitation.* The market for labour power and the relationship of disguised exploitation frustrate the regulatory influence of the state on grain prices in a considerable sector of inter-peasant exchange.

As regards such spheres of inter-peasant exchange as trade in working cattle, and also trade in artisan and craft products not made in state factories, here the relations of simple commodity production reign completely and absolutely—here we have a sphere of absolute rule of the law of value.²

Here we have before us that section of our economy which is the absolute antipodes of the sphere of production of means of production in the state sector. The sixteenth to eighteenth centuries co-exist with the highest achievement of the twentieth century, with the planned industry of the socialist state.

Surplus Value, Surplus Product, Wages

The question whether surplus value or surplus product exists in state industry has given rise and still gives rise to many disputes among our economists and our student youth. From what has

¹ In 1924-5 total inter-peasant exchange amounted to 1,497 million pre-war roubles, and in 1925-6 to 1,781 million roubles' (State Planning Commission control figures for 1926-7). (Note to the Second Edition.)

² We speak here of absolute rule in the sphere of *simple* commodity production because, as Marx said more than once, the law of value 'attains free development precisely on the basis of capitalist production', that is, when labour-power is a commodity like other commodities.

already been said the reader can see to some extent that from the standpoint of economic theory this is a rather hard nut to crack. It is at all events impossible to solve this question in isolation, without a general evaluation of the entire system of our economy and a systematic analysis of all the categories of political economy in their application to Soviet economics.

As in a finished system of planned socialist production the commodity is replaced by the product, value by calculation of labour time, wages by the consumers' ration of the collective worker, so surplus value is replaced by surplus product. We have therefore, in accordance with the method we have adopted, to examine to what extent we have advanced in our state economy along the historical road from surplus value to surplus product, and which of these terms is the more accurate here. I must mention that two kinds of differences on the question under examination are encountered: differences on terminology, which therefore have a secondary character; and differences of principle, connected with different theoretical and historical evaluations of our system of state economy in general. Differences of the second type cannot therefore be restricted merely to the field of the problem being considered; they inevitably extend into all other problems of the theoretical analysis of our economy.

Let us begin first with an exact definition of the concept of surplus value, as we find it in Marx. The category of surplus value is inseparable from the following basic presuppositions. For surplus value to exist it is necessary that value in general should exist, that is, that the product of man's labour should be a commodity. And this means that we are here concerned with a historical category characteristic only of commodity production. But this is not all. The product of man's labour assumes the form of a commodity not only in capitalist but also in simple commodity economy. Necessarily, therefore, there is a second basic condition, namely, that labour-power should assume the form of a commodity, that is, that a free market should exist for a special commodity, that of labour-power. But the existence of labour-power as a commodity presupposes the existence of a proletariat, divorced from the instruments of production, at one pole, and the existence of a class of purchasers of labour-power, possessing a monopolist right of ownership of the instruments of production, at the other. Consequently, the concept of surplus value presupposes not simply

a relation of exploitation, but a relation of exploitation between entrepreneurs and wage workers. Finally, the last presupposition is connected with the adjective 'surplus', that is, such a stage of development in the productivity of labour generally is necessary, that the productively employed workers produce more than is minimally necessary for the restoration of their labour-power. This means that the concept of surplus value presupposes the existence in society of surplus product, which assumes the form of surplus *value* only at a certain stage of development of commodity economy.

Before proceeding to an analysis of the category of surplus value in our society, we think it useful to take a retrospective glance at the history of the development of this category. In so far, as a transformation of the production-relations of capitalist economics into the historically higher form of production-relations of socialism is taking place in our society, in so far as we have to study the dialectical transition of the one type of relations into the other, it is interesting to study the reverse process, the process of dialectical transition from surplus product to surplus value in the initial period of the development of capitalism.

Marx more than once warned against confusing the concept of surplus product with the concept of surplus value. Surplus product is a concept incomparably wider than the concept of surplus value. Surplus product existed long before the development of capitalist production and will continue to exist after the ending of the bourgeois system of society, though no longer as a relation of exploitation. Only at a certain historical stage does surplus product assume the form of surplus value. In natural, slave-owning economy there is no surplus value in Marx's sense, although there is both exploitation and surplus product, since the slaves create only objects of consumption for their lords, and the aim of exploitation is to extort these objects of consumption. Nor is there surplus value in natural, serf-owning economy, where, for example, labour-service prevails as the means of creating objects of consumption for the large-scale feudal landowners. The situation changes only when the product created by the labour of the exploited classes assumes the form of a commodity and is transformed into value, and thereby surplus product is transformed into surplus value. Then also the aim of exploitation becomes systematic extortion of surplus value. In this case Marx passes

from using one term to using the other. Thus, for example, in Volume III of *Capital* Marx speaks of the transformation of 'a patriarchal slave system devoted to the production of immediate means of subsistence into one devoted to the production of surplus value'.¹ In Volume I of *Capital* Marx also speaks not only about the exploitation of the Negroes but also about the transition of the surplus labour of the serf peasant into surplus value. He writes:

The Negro labour in the southern states of the American union preserved something of a patriarchal character so long as production was chiefly directed to immediate local consumption. But in proportion as the export of cotton became of vital interest to these states, the overworking of the Negro, and sometimes the using up of his life in seven years of labour, became a factor in a calculated and calculating system. It was no longer a question of obtaining from him a certain quantity of useful products. It was now a question of production of surplus value itself. *So was it also with the Danubian principalities.*² (My emphasis, E.P.)

What we see here, however, are only undeveloped, transitional forms of surplus value, which are not completely characteristic of a developed capitalist mode of production. The important thing is that there are present all the prerequisites of surplus value except the last, which is characteristic of the development of capitalism—the transformation of labour-power into a commodity, 'freely' sold by its owner on the labour market. The slave is tied to the slave-owner on the basis of the latter's right to own him personally, the demand for his labour-power in production proceeds not according to the specific laws of developed capitalist commodity production but on the basis of the excepting from the laws of commodity economy of the purchase, sale and reproduction of his labour-power. The same must be said of the serf peasant, where the possibility of exploitation does not arise 'freely' and spontaneously from the monopoly of one class in the means of production, but is based on the juridical dependence of the peasants on the landlords.

Finally, as the last transitional stage to genuinely capitalist surplus value we may cite the work of handicraftsmen in their

¹ *Capital*, Vol. III, part 1, p. 316, Stepanov's translation. [F.L.P.H. English edition, p. 326.]

² *Capital*, Vol. I, p. 214, Stepanov's translation. [English translation, Allen and Unwin, p. 219.]

homes, for a buyer-up [putter-out], when they work up the customer's raw material, with tools belonging to him, and are in essentials already actual wage-workers, even though they retain the external attributes of independent producers. One more step, and there stands before us the proletariat divorced from the means of production, with at the opposite pole the owner of the means of production, the capitalist, extorting surplus value on the basis of the working of the law of value in general—in the given case, through the exchange of capital for labour-power as a commodity.

Let us now proceed to analyse the category of surplus value in its application to our economy, particularly to the state economy of the proletariat. While in the pre-capitalist period of economic history we had, if the expression may be used, a growth of the elements of this category, in proportion as commodity production developed and passed over into commodity-capitalist production, in our present economy we observe the opposite process, the process of disappearance of the elements of the category of surplus value, in proportion as the productive forces develop in socialist forms. In the former case we have the dialectic of growth, in the latter the process of disappearance. Let us examine this process more concretely, analysing the separate prerequisites of the category of surplus value.

As we have already said, the first prerequisite for the transformation of surplus product into surplus value is the transformation of product into commodity. In our state economy, as we have seen above, the opposite tendency is developing—the transformation of commodity into product, proceeding fastest and penetrating furthest in the sphere of state production of means of production. The reader can see the importance of this fact from the following circumstances. As we know—and Marx had much to say about this—the development of the productive forces of capitalist society and the development of technique, lead, *as a general rule*, to an increase in the organic composition of capital, which, from the point of view of the distribution of labour in society as a whole, means an ever-increasing importance of production of means of production. The possibility of extending the production of consumer goods, and cheapening them, is achieved by a relatively still greater extension of the production of means of production. This law does not depend on the specific features of the capitalist relations of production, it must operate in socialist

society too, in so far as the productive forces of society are developed. It applies completely to our economic system. *And since this is so, the development of the productive forces must inevitably mean an increase in the relative weight of the production of means of production, and this increase quite automatically intensifies the tendency for commodity production to disappear in the state economy and in this way undermines the category of surplus value.* If we take the entire production of our state industry in a particular year and ask if it constitutes a mass of commodities in the usual sense in which Marx uses this term, we have to answer this question with both yes and no. Yes, in so far as we produce monopolistically, relying on the market. No, in so far as we produce monopolistically for the state sector itself, retaining only the *form* of market relations within the state sector; partly no, in so far as the tendencies of socialist monopolism lead to the undermining of commodity economy, the abolition in many cases of competition, and the transformation of the very nature of the commodity market. While in peasant economy production for the market increases in proportion as the productive forces of the countryside increase, encountering the limitations of market relations described in the preceding section, in the state economy the commodity-producing character of production declines in proportion as the absolute amount of production grows and also as the role of planning and organization grows within the entire economic organism. Consequently, this conclusion follows. The category of surplus value in the state economy, from the angle of the prerequisite we have examined, is collapsing and to a considerable extent has already collapsed with the development of socialist relations of production.¹

Let us now take the second presupposition of the concept of surplus value—the relationship of exploitation between two classes, the system of appropriation of the surplus product of the workers by the owners of the means of production. Here we have without doubt advanced incomparably further than in respect of the

¹ The author has often been reproached with over-estimating the planning principle in our economy and under-estimating the operation of the law of value. It must be said once and for all regarding these reproaches that I *nowhere* engage in arithmetical calculation of the force of action of either principle, but merely study their tendencies of development. One may estimate differently the relation of forces between the law of value and the socialist tendencies at any particular moment, but this does not shake the correctness of my analysis, if our system of economy is going to *develop*. (Note to the Second Edition.)

relation we have just examined, and we have advanced not in an evolutionary way but through a leap, through the socialist revolution, through the abolition of capitalist ownership of the means of production and their transference into the hands of the proletariat organized in a state. In this respect we can to a very much larger extent speak of the transformation of surplus value into surplus product than in the other respect. This point is in general a fundamental one. The working class cannot exploit itself.¹ The division of the proletariat between those workers who fulfil organizing functions and are better paid, and the rest, is a division *within a single class*, and in principle is not distinguishable from the division of this class into skilled and unskilled workers. This situation is connected with the heterogeneity of the working class as regards the management of industry, its heterogeneity in technical training, organizing abilities, and so on. The new system receives this heterogeneity as a legacy from capitalism, and it can abolish it gradually, as the productivity of labour rises, as the cultural and technical training of the entire mass rises on the basis of the new educational system and the development of the system of workers' democracy in all spheres of leadership and management; finally, on the basis of a quite conscious struggle against tendencies toward conservatism and stagnation. The existing material inequality and the comparative slowness of the rise of the general mass of the working class to the level of the organizing cadres result not from the present structure of production relations, they persist *in spite of* this structure, and they will be abolished as the hard-set division by occupations is eliminated, as the gap between science and labour is abolished, as there passes away that 'enslaving subordination of the individual to the division of labour', inherited from bourgeois society, of which Marx spoke in his *Critique of the Gotha Programme*. The development of the productive forces in the state economy, the systematic increase in

¹ It will be useful to recall here the following observation by Marx, which relates directly to this subject. In Volume I Marx says: 'We know that the means of production and subsistence, while they remain the property of the immediate producer, are not capital. They become capital only under circumstances in which they serve at the same time as means of exploitation and subjection of the labourer. But this capitalist soul of theirs is so intimately wedded, in the head of the political economist, to their material substance, that he christens them capital under all circumstances, even though they are its exact opposite.' (*Capital*, Vol. I, p. 791, Stepanov's translation. [English translation, Allen and Unwin, p. 792.])

wages, the embracement of the entire proletarian and semi-proletarian youth by the socialist system of general and technical education, together with the re-education of adults, will lead to a rapid increase in the number of skilled workers as compared with unskilled, and will train for organizing functions a mass of workers who will many times exceed the number of organizational and management jobs. And this will mean the dissolution of hard-set occupational divisions and a gradual transition to a real socialist solution of the problem of the cadres and the masses, through the masses being brought close to the cadres, with a transformation of occupations from being fixed groupings of the same persons in particular jobs into the fulfilment of functions by the entire masses, turn and turn about. The necessary functions will remain, but the people who carry them out will change. In the given case, as in many others, further socialist development, with socialization of the instruments of production, already depends on the purely quantitative growth of the productive forces within the state economy, and the rate of this growth. Conversely, the congealing of cadre and occupational divisions can be a consequence of the checking or slow development of the productive forces.

Thus, the inequality we have mentioned in the distribution of material means, and also the retention of occupational divisions and *de facto* inequality as regards possession of knowledge, technical information, and organizing experience do not at all result from a monopoly of the instruments of production by a small part of the proletariat. The red managers, proletarian engineers, and business executives have no monopoly of the means of production. They are all servants of the workers' state and, just like all the other workers, they carry on production, using the collectively-owned state means of production. This is the difference in principle in the very structure of production-relations as between state industry and capitalism, and here lie the prerequisites for overcoming those bourgeois features in the system of distributing rewards and responsibility which still remain in the period of the first steps of socialist construction.

In examining the problem of exploitation in the state economy we cannot, however, restrict ourselves only to mutual relations within the proletariat. The proletariat may be subjected in some degree to exploitation by other classes, even though it is itself the ruler in the sphere of large-scale production. Depending on

the relation of class forces, on the weakness and immaturity of the new form of production and on the strength of commodity and commodity-capitalist economy, a relation of exploitation may occur which is not to be found in the usual framework of production and distribution relations between capitalist and worker in bourgeois society. And in that case, to the extent that this new type of exploitation exists, surplus value will also exist.

Let us examine the possible forms of such exploitation which exist in reality and theoretically.

First, part of the surplus labour—true, a comparatively small part—goes to that part of the remuneration of specialists which exceeds the wages of highly-skilled labour. This form of exploitation of the workers in state industry results from the undeveloped state of socialist relations in the sphere of the new system of education, a system inherent in collective production and inseparable from it.

Secondly, a part of the surplus product is captured by private capital in the form of merchant's profit. Here exploitation results from the inadequately developed state of that system of distribution which follows from the socialization of the means of production. This is undoubtedly the largest part, quantitatively, of the surplus products of state industry which is appropriated by the enemy class.

Thirdly, there is the interest on internal loans taken up by the peasants, Nepmen,¹ urban petty-bourgeoisie, and so forth, and also the possible payment of interest and principal on old foreign loans and interest on new ones. To this we should relate the theoretically possible case when, as a result of an incorrect policy in the sphere of primitive socialist accumulation, the surplus product obtained by the state from private economy for general state needs is exceeded by the part of the surplus product of state economy which in one form or another finds its way into private economy.

Let us now pass to the last point, namely, the question to what extent the labour-power of the workers in the state economy figures as a commodity sold on the labour market. Does there or does there not exist in our country, in the whole economy, the sale of labour-power as a commodity? On the whole this question must be answered affirmatively. But in the state economy, just

¹ [Businessmen who took advantage of the opportunities created for private enterprise in Soviet Russia by the change from 'War Communism' to the NEP in 1921.]

as in a whole number of other relations of production, we have a relationship of a transitional type, and the question must be answered with both yes and no.

We answer this question in the affirmative so far as the economy as a whole is concerned, first, because no more workers and office-workers are employed by the state, the local soviets, and the co-operatives than are employed in private industry, private trade, and agriculture, especially if we take into account not merely the farmhands but also all the various open and disguised forms of exploitation of labour power that are found in the countryside. Secondly, the reproduction of all labour power in general takes place in such a way that half or more than half of the average worker's budget is devoted to the purchase of consumer goods from private, mostly peasant, production, and thus the very process of reproducing labour power is closely connected with commodity economy.

As regards the workers and office-workers in the state economy, the special feature of the situation which has come into being here is the process of abolishing the commodity status of labour-power, a process which has begun and which is progressing as the productive forces develop. This is connected above all with the very method of calculating the wage fund. In capitalist society the price of labour-power gravitates towards its value, as constituted in the given, historically-formed conditions, and deviations from value depend on the conjuncture of the labour market, that is, they are connected with the relation between supply and demand of labour-power. In the state economy of the proletariat the level of the entire wages fund is regulated by the law of primitive socialist accumulation, and only the graduations of the wage-scale are still determined to a considerable extent, if not predominantly, by the supply of and demand for skilled and unskilled labour.

While the wages fund as a whole, with the approach of the whole of production to the pre-war level, is also close to the pre-war level, this quantitative coincidence is rather accidental than otherwise and is determined by the demands of accumulation and not by the working of the same law of wages as before the war. It is extremely characteristic of our conditions that, first, the increase in the wages of unskilled workers is to a substantial extent independent of the state of the labour market. The increase in the wages of the unskilled workers, beginning with the transition to

NEP, has taken place along with an increase in unemployment, has taken place more in dependence on the increase in the productivity of labour and the rate of accumulation in the state economy as a whole, and, consequently, has been independent of the workings of supply and demand in relation to unskilled labour-power. It is further very important also to mention here, and to evaluate correctly, the fact that the proportions (differentials) of wages in various branches have departed to a marked extent from what prevailed before the war (food-industry workers, leather workers, textile workers, on the one hand; metal-workers, miners, transport workers, on the other), and have changed first and foremost in dependence on the tempo of restoration and accumulation both in the various branches and in the state economy as a whole. And here the functioning of the labour market has been subjected to very great changes under the influence of the change in the system of production-relations. Thus, in light industry wages have risen more rapidly not because, or, more correctly, not so much because, in this sphere there was less unemployment, and the wages of the unskilled workers have increased not because there is less unemployment among the unskilled workers; these things have happened in accordance with the whole aggregate of conditions in which the law of primitive socialist accumulation has developed its functioning. In the future, too, the increase in the wages of all the workers in general and the unskilled workers in particular will advance less and less in dependence on the development of the productive forces in the state economy. This is not at all an approach to the system of distribution inherent in socialist relations of production. We have here only the beginning of the preparation of the preliminary conditions for such distribution, one of the prerequisites of which is the divorce of the whole wages fund from the working of the law of value. This divorce has already begun and will progress further in the future. Here we have a fresh extremely interesting example of the fact that under socialization of the instruments of production purely quantitative changes—in this case the growth of the productive forces and material wealth in the state economy—*automatically* intensify the process of dissolution of the categories of capitalist society.

As regards distribution within the total wages fund, this still remains almost completely bourgeois, just as the very form of wages remains capitalist. Our scale of wage-rates has nothing in common

with socialism, and cannot have.¹ So long as the training of skilled workers is not adapted to the socialist production-relations of the state economy, the wage-scale will signify adaptation to that bourgeois inheritance which the Soviet power has received both in the division of the workers into trades, and in the retention of many, if not most, of the elements of bourgeois and not socialist incentives to labour. The socialist incentives to labour do not drop from heaven; they have to be developed through prolonged re-education of human nature as it has been shaped in commodity economy, re-education in the spirit of collective relations of production. I do not wish to imply by this that our present system of wage-rates is completely adequate to the conditions of labour in the state economy and that we cannot already now begin to reform it as we go forward in the general offensive on the front of socialist construction. We undoubtedly do often copy capitalist relations even where this is not only not necessary in order to raise the productivity of labour but where such copying is directly harmful from the economic and cultural standpoint.

As regards the form of wages, in connexion with the very marked increase in piece-work it is not pointless to recall what Marx said on this matter. 'Piece-wage', Marx wrote, 'is the form of wages most in harmony with the capitalist mode of production'.² If this is so, then the question naturally arises, what form of wages is most appropriate to the conditions of labour in the developing state economy of the proletariat? As we know, we began with a system of rationing in the period of War Communism, and very soon we were convinced that this method of distribution, breaking sharply and abruptly with petty-bourgeois, individualist stimuli to labour, ended in complete failure—however inevitable this system may have been under conditions of famine and civil war. The so-called system of collective supply and collective remuneration to which we then went over had a fairly big success because these were measures transitional to the present wages system. Today the piece-wage system prevails widely in our country, and where it is not possible owing to technical conditions we have day-wages or wages paid by the month. The piece-wage system

¹ It is necessary also to keep in mind the fact that piece-work and wage-scales are linked with the working of the law of primitive socialist *accumulation*, accumulation with an *obligatory* rate of growth.

² *Capital*, Vol. I, p. 561, Stepanov's translation. [English translation, Allen and Unwin, p. 567.]

makes it possible to extract everything possible from individual, bourgeois stimuli to labour, which with the socialization of the means of production means, generally speaking, lagging behind the new form of property to the extent of a whole epoch. The very development of technique, the increased role of transport, electrification, and so on, are restricting the sphere of labour in which piece-wages are possible. On the other hand, the piece-wage system may at a certain moment begin to act as a brake on the new system of organizing labour and the education of people in new stimuli to labour, even where it is applicable technically. Undoubtedly, in proportion as the socialist elements in our economy are intensified we are brought up against the need to go over to a combined method of individual and collective payment and we can regard as certain a transition in the future to payment of the 'collective worker' instead of payment to the individual worker for an individual job of work. Movement in this direction has, however, hardly even begun so far. On this sector, therefore, we have progressed a great deal less than on others, if we leave out of account the growth of a number of social institutions such as workers' clubs, crèches, children's homes, factory canteens and so on, the development of which is essentially a partial transformation of the old system of wages into another in the form of collective supply.

As regards the last prerequisite for the existence of surplus value, namely, that the surplus product itself which under capitalism takes the form of surplus value really should exist, one may perhaps doubt whether it did in certain branches of production during the period of War Communism.

Let us now strike the balance of all these pros and cons and decide which term is the more correct to use in relation to the surplus fund which is deposited in the state economy after the consumer needs of the workers in state industry have been satisfied. Surplus value or surplus product? Personally I consider the term surplus product the more correct, in so far as it is a question of characterizing not only what exists but also the trend of development. As we have seen, Marx used the term 'surplus value' in connexion with relations of exploitation which did not yet include *all* the elements of this concept in their classical, pure form. He applied this term in anticipation to production relations that were only developing towards the capitalist form of exploitation of

labour power. With the same justification we apply the term 'surplus product' in anticipation to relations of production and distribution that include elements both of the category of surplus value and of the surplus product of collective expanded reproduction, with a growing preponderance of the latter.

This is the position in the state economy, which is of the greatest theoretical interest for this study precisely because it is in this sphere that the disappearance of old production-relations and their elimination by new relations is taking place, and so one can study the interweaving of the old and the new at a given stage in the building of socialism. In relation to private industry and all the other points of our economy at which wage labour in different forms is used, everything remains valid that Marx wrote about wage labour, surplus value, and so on, taking into account, of course, those changes of an externally compelling character which are introduced by the existence in our country of the dictatorship of the proletariat.

Concluding what I have said about the category of surplus value, I wish to emphasize one extremely important circumstance. The law of primitive socialist accumulation, in so far as it regulates the level of wages in the state economy, conceals within itself an internal contradiction. As the law which expresses all the conscious and elemental tendencies towards increasing the tempo of expanded reproduction in collective state economy, it is thereby the law of development of socialist production-relations generally. But, on the other hand, as the law of the restriction of wages in the interests of socialist accumulation it restricts the tempo of transformation of wages into the consumers' ration of the worker in socialist economy, a transformation which, ever since the instruments of labour have been socialized, is assisted by a rapid increase in wages, because that leads both to the divorce of wages from the value of labour-power and to the material pre-conditions for the development of socialist, proletarian culture. This internal contradiction of the law results entirely from its historically transitional character. The tendency to overcome the category of wages, that is, the tendency to intensify the socialist *quality* of production-relations, comes into contradiction with the tendency to quantitative extension of the territory of the state economy and its production-relations in their *present* form, that is, production-relations at an extremely low stage of development in their socialist

character. Already the very term 'primitive socialist accumulation' expresses this dual nature of the law: the adjective 'socialist' comes into contradiction with the noun 'accumulation' to which it is bound not only grammatically but also in the real historical process.

Let us now pass to the other categories, analysis of which will demand from us a great deal less time.

The Category of Profit in the State Economy

The question of this category is in some ways considerably simpler and more transparent than that of the others, except only in the matter of terminology, which nowhere fits exactly. Neither the term capital, nor the term accumulation, nor the term profit, nor, as we have seen, the term surplus value, can serve, strictly speaking and without qualification, to describe relations within the state economy. One must either use them in a conditional sense or else add an adjective to the noun (state capital, socialist accumulation), or else anticipate the tendency of development, as we did with the term surplus value, when we replaced it with the term surplus product.

Under capitalist production-relations, equalization of the rate of profit on equal amounts of capital plays a very big role in distributing productive forces among the different branches of production. The question arises: what instrument of regulation fulfils the same function in the state economy? How is the rate of profit determined for the state trusts, in the first place, and, secondly, what system operates when fresh capital is invested, to distribute it between the different branches of the state economy? What takes the place here of the working of the law of value in the system of capitalist economy?

How far the concept 'rate of profit' has been transformed in the state economy into a new relation of production and distribution becomes obvious when we compare any of our trusts with a corresponding group of capitalist enterprises under conditions of complete or limited freedom of competition. Let us suppose that in place of our Gomza a number of capitalist companies are operating, such as an association of Bryansk factories, an association of Sormovo factories, and so on, and that in place of the textile trusts headed, in the sphere of exchange, by the textile syndicate, the manufacturing firms of the Morozovs, Korzinkins,

and so on are functioning. Capitalist engineering and textile enterprises cannot know even approximately, when they begin their economic year, either how much they will produce over and above the firm orders they have, or the prices of raw materials, or the unexpected developments which await them in the labour market, or the prices at which their own products will sell; consequently, they cannot know the rates of profit that await them. A very great part of the elements in a 'capitalist plan' constitute an unknown quantity. New competitors may put up the prices of raw material and bring down the selling price of products, the workers may go on strike for a month, and so on. For this reason the balance of the enterprise, when it is struck after the end of the year's work, may bring many surprises. The profits graph may show either that in the given year more capital than was needed was invested in the given branch, and this may be expressed in a lowering of the rate of profit or may cry out in the form of a deficit; or there may be a sharp rise in the rate of profit, thanks to the increase in the market prices of the products of the enterprise in question and other causes, and this gives notice that insufficient capital has been invested in the given branch. The elemental forces of the market, factors in which are our Morozovs, our associations of Sormovo factories, and so on, owing to the operation of the law of value, in the given case through the spontaneous distribution of profit, will facilitate the establishment of equilibrium in the distribution of productive forces, by recording different magnitudes in the profits graphs of the different branches and enterprises. Despite the different proportions of constant and variable capital in the different branches of capitalist production, equilibrium will be attained on the basis of the law of prices of production, through the operation of which enterprises with a higher organic composition of capital and a correspondingly lower rate of surplus value receive, in the last analysis, the average profit, as a result of the equalization of the rate of profit, in just the same way as enterprises with a low organic composition of capital.

In the state economy the situation is quite different. Gomza knows its production programme in advance, and knows it because all its customers know it too. The textile trusts also know their programme, though the fluctuations in fulfilling it may be greater, because the realization of textile products takes place not only within the state sector, among its workers and office-workers.

With reasonably accurate statistics of the effective demand of consumers in town and country this programme cannot diverge very far from the plan's assumptions; when there is a goods famine this problem no longer exists, because the danger of not realizing all the products ceases to arise. The whole affair will then consist in determining the amount of fixed and circulating capital, the dimensions of which are fully subject to planned calculation. Furthermore, Gomza cannot expect any surprises with regard to metal prices, because these prices are determined by the state itself. The textile trusts cannot expect any surprises as regards the prices of equipment manufactured within the state sector; or as regards two-thirds of the amount of cotton produced within the country, or flax and hemp, the prices of which are dictated not so much by the market as by the planning organs of the state; or as regards wages, the level of which is determined in a planned way on the basis of the resources of the state economy in the given year and embodied in collective agreements. As a result of the strengthening of the planning principle in the whole state economy, and also in the internal market for raw material, the very nature of profit and the instrument of the equalization of the rate of profit undergoes a change. While private entrepreneurs can only conjecture on the basis of various indirect indications, which they balance one against the other, the balance of the Soviet trusts is already made up, four-fifths of it, at any rate, before the beginning of the economic year, in the form of production programmes, in which the selling prices for the products of the trusts are also standardized. This standardization leads to both prices and the corresponding rate of profit losing their regulatory character for the distribution of the productive forces, in so far as this distribution is achieved not in a roundabout, indirect, spontaneous way but is directly provided for in the general economic plan of the given year. This is no longer a rate of profit in the capitalist sense of the world, which can furthermore be broken down into the part which capitalized and the part which is consumed by the capitalists, something which also very greatly complicates the achievement of equilibrium in the system of reproduction. It is the rate of socialist accumulation for each particular branch of production. The relevant rate is contained already in the factors in the production programme, and more particularly in the level of selling prices. As a result of the socialization of industry and the develop-

ment of the planning principle in the state economy, especially in the sphere of socialist accumulation, the category of profit not only vanishes, as a distribution-relation of bourgeois society, along with the abolition of the capitalist class, but also it almost completely ceases to operate as the regulator, on the basis of the law of value, of the distribution of the productive forces between the different branches of the collective state economy.

Let us now look at the other side of the question: the method of investing new capital, or, to put it better, where the state economy is concerned, new resources, new elements of production.

In capitalist society that part of surplus value destined for productive use which cannot be simply added to the capital of going concerns is distributed among the various spheres of production through the issuing of shares. For new construction work, joint-stock companies are set up with the aid of the banks or by the banks themselves, and these companies issue shares, distributing them among trading, industrial or other enterprises which have free capital, or else among individuals. The issuing of shares is a purely spontaneous way of creating new capital and distributing it productively, and from this standpoint it corresponds to the whole structure of capitalist society. (The changes which are introduced into the practice of share-issuing by the production-relations of monopoly capitalism will not be examined here.) How is this same problem dealt with in Soviet economy?

As we know, we already have a fairly large number of joint-stock companies, which are mostly state concerns, and a small number of mixed and private ones. It would seem that in respect of the distribution and investment of new productive resources we are following in the footsteps of capitalism.

To affirm this would be, however, to take the external form for the essence of the matter. To say nothing of the fact that we get only a very small part of our new capital through the system of issuing shares, the very structure and method of work of joint stock companies with state capital are hardly to be distinguished from the activity of any trust, and the method of collecting capital is by getting subscriptions from state institutions for state or municipal (which are one and the same) enterprises or groups of enterprises. Nothing new arises except where both state and private capital are raised by the issuing of shares.

The basic way of distributing new capital which is not added to

the capital of going concerns, with the exception of the one and only—and, let us hope, short-lived—joint-stock society for new industrial construction, is our Soviet banking system (the State Bank, the Industrial Bank, and other banking institutions), and, to some extent, the distribution of resources to industry through the state budget. This distribution cannot be otherwise than planned, because it is completely absurd to suppose that the process of expanded reproduction of state industry and transport, all new construction, etc., can proceed in a planned way in the sphere of *fulfilment of production programmes* and yet can be unplanned, relying on some process of self-activity and spontaneity within the state economy, when it is a question of *collecting resources* for expanded reproduction. It must be observed in passing, however that our state economy has not yet found completely satisfactory organizational forms for servicing the process of expanded reproduction in this way, forms which are immanently inherent in the state economy and which at the same time correspond to the actual stage of primitive socialist accumulation.

Finally, we must mention this extremely important fact that our state economy still develops to some extent spontaneously along the line of the operation of the law of primitive socialist accumulation, in this respect, that the balance sheet of accumulation for each year, resulting from the actual level of development for the productive forces in it and in the economy as a whole, from the amount of effective demand in private economy, and from the necessary amount of new construction, is not determined in advance and carried consciously and in a planned way through the whole system of planned prices; the fact that the general level, so to speak, of the prices of production of the state economy, as a single trust, is groped for spontaneously, more through arithmetical addition than through dividing the total amount of necessary accumulation among the appropriate spheres of production. The existing structure of our state economy often proves to be more progressive than the system whereby it is managed economically.

The question of the transformation undergone by the law of prices of production in the conditions of the Soviet economy will be examined in more detail in the second volume. Here we shall confine ourselves to some general theoretical observations on this subject. Under capitalism the law of equalization of the rate of profit ensures the necessary proportionality in the distribution of

labour between different branches of production, *in spite* of the difference in the organic composition of capital, and so in spite of the different amount of surplus value produced by each unit of capital invested in production. This levelling of the rate of profit guarantees to all groups of capitalists a consumption fund of approximately the same level and also the same level of accumulation. Without the working of the law of prices of production, reproduction would be impossible in certain sections of capitalist economy. The entire process of regulation takes place on the basis of competition. What is the difference here from the situation in our state economy?

In the first place, the profit of state enterprises is not divided into a capitalists' consumption fund and an accumulation fund. We have only an accumulation fund, which is partly taken away by the People's Commissariat of Finance, either as a result of the technical advantages of distributing a certain part of it through the state budget or, sometimes, as a result simply of our inadequate understanding of the nature of the economy which we are managing, and of its laws.

Secondly, the entire accumulation fund is constituted not by adding together all the masses of surplus value received on the basis of the elemental struggle between workers and capitalist over the size of s and v , and then distributed among the capitalist enterprises on the basis of the law of equalization of the rate of profit, but the other way round. We try to determine beforehand the necessary accumulation fund, on the basis of the production plan, then we ascertain what part of it can be covered by budgetary means and what part by way of price policy. The size of that part of the accumulation fund obtained through price policy is established in relation to the entire state economy as a whole, and the task of the separate trusts then consists of filling up this fund with their profits, which under this system will not as a rule be equal, and will be all the less equal the more successfully the state economy manœuvres on the market. As a result, instead of the law of prices of production, we have in our economy a price policy dictated by the task of obtaining each year a definite accumulation fund for the state economy as a whole. The price-level of the separate trusts and the amount of profit made by these trusts are both adapted to the fulfilment of this basic task. At any rate, this is the trend, which is still not sufficiently appreciated and which

is not always clearly reflected in our price policy. Often, indeed, it is quite the contrary, and price policy deviates from this line to the detriment of the task of expanded reproduction.¹

The Category of Rent

There is much confusion regarding the category of rent in the Soviet system, where the land is nationalized and the dimensions of purely capitalist leasing of land are very insignificant. People have often discussed, and continue to discuss, with serious mien, the question whether the peasants pay absolute or differential rent (in Marx's sense of these categories) to the state in the form of the food tax, or now in that of the single tax, what rent a state enterprise pays to the local Soviet on whose territory it is located and so on. All this confusion is due to the fact that a category of developed capitalist society is uncritically and pedantically transferred to relations where, on the one hand, state economy prevails, with the specific production-relations of the transition period to socialism, and, on the other hand, simple commodity production with a very weak stratum of capitalism actually in the sphere of *production*. Yet rent, in Marx's sense of this term, is a category of the capitalist mode of production in its developed form, when it has conquered the sphere of agriculture. In other words, Marx analyses in his theory of rent the production and distribution relations of pure capitalism, when the whole land is cultivated by capitalist farmers, while the ownership of it is in the hands of another class, the class of landowners. Foreseeing the confusion which could arise in connexion with his concept of capitalist rent, and combating the confusion which various economists had already introduced into this question before his time, Marx more than once emphasized the difference between capitalist land rent and those various forms of rent which existed in the pre-capitalist period, were quite different in character, and have nothing in common with capitalist land rent except the right of private ownership of land as a means of acquiring a certain share of the country's national income. Let us here quote a couple of passages from Marx which are needed for our further exposition of this subject. In Volume III of *Capital* Marx wrote on the subject which interests us:

¹ [Three paragraphs (from 'The question of the transformation') added in Second Edition.]

Whatever the specific form of rent may be, all types have this in common: the appropriation of rent is that economic form in which landed property is realized, and ground rent, in turn, presupposes the existence of landed property, the ownership of certain portions of our planet by certain individuals. This owner may be an individual representing the community, as in Asia, Egypt, etc.; or this landed property may be merely incidental to the ownership of the immediate producers themselves by some individual, as under slavery, or serfdom; or it may be a private ownership of Nature by non-producers, a mere title to land; or, finally, it may be a relationship to the land which, as in the case of colonists and small peasants owning land, seems to be directly included—in the isolated and not socially developed labour—in the appropriation and production of the products of particular plots of land by the direct producers.

The *common element* in the various forms of rent, namely, that of being the economic realization of landed property, of the legal fiction by grace of which certain individuals have an exclusive right to certain parts of our planet—makes it possible for the differences to escape detection.¹

Continuing to develop further this same thought regarding confusion between different forms of rent, Marx wrote in another chapter of the same volume of *Capital*:

The whole difficulty in analysing rent, therefore, consists in explaining the excess of agricultural profit over the average profit, not the surplus value but the excess of surplus value characteristic of this sphere of production; in other words, not the 'net product' but the excess of this net product over the net product of other branches of industry. The average profit itself is a product formed under very definite historical production relations by the movement of social processes, a product which, as we have seen, requires very complex adjustment. To be able to speak at all of a surplus over the average profit, this average profit must itself already be established as a standard and as a regulator of production in general as is the case under capitalist production. For this reason there can be no talk of rent in the modern sense, a rent consisting of a surplus over the average profit, i.e., over and above the proportional share of each individual capital in the surplus value produced by the total social capital, in social formations where it is not capital which performs the function of enforcing all surplus labour and appropriating directly all surplus value.²

¹ *Capital*, Vol. III, part 2, p. 174, Stepanov's translation. [F.L.P.H. English edition, p. 619.]

² *Capital*, Vol. III, part 2, p. 319, Stepanov's translation. [F.L.P.H. English edition, p. 764.]

From the passages we have quoted from Marx, as from the whole of his exposition of the theory of rent, it follows quite obviously that the category of capitalist land rent is very little applicable to the understanding of Soviet relations. We explain below what we have in mind when we say 'very little', but for now let us see why it is incorrect to speak of rent in the Marxist sense when talking about our agriculture, and also in the majority of cases when talking about rent-taxation in towns.

Let us begin with the concept of absolute rent. The source of absolute rent is that part of the surplus value created by wage-workers in capitalist agriculture which by its origin is connected with the lower organic composition of agricultural capital and which does not participate in the process of equalization of the rate of profit in the whole of capitalist production. This part of surplus value is 'captured', as Marx puts it, by the owners of plots of land, while the capitalist farmers retain only the usual average profit on the capital they have invested in the cultivation of the land. It is quite obvious that, even regardless of the fact of the nationalization of the land, absolute rent cannot exist where there is no capitalist agriculture, because in that case there are not those relations of production and distribution under which in general it is possible for absolute land rent to exist. From this standpoint, and also for a correct understanding of the category of differential rent, the following passage is very important, from Marx's notes preliminary to his analysis of land rent:

We assume, then, that agriculture is dominated by the capitalist mode of production, just as manufacture is; in other words, that agriculture is carried on by capitalists who differ from other capitalists primarily in the manner in which their capital, and the wage-labour set in motion by this capital, are invested. So far as we are concerned, the farmer produces wheat, etc., in much the same way as the manufacturer produces yarn or machines. The assumption that the capitalist mode of production has encompassed agriculture implies that it rules over all spheres of production and bourgeois society, i.e., that its prerequisites, such as free competition among capitals, the possibility of transferring the latter from one production sphere to another, and a uniform level of the average profit, etc. are fully matured.¹

It is quite obvious that we hardly possess the prerequisites of

¹ *Capital*, Vol. III, part 2, p. 154, Stepanov's translation. [F.L.P.H. English edition, p. 600.]

which Marx speaks, including the one that the capitalist mode of production should prevail in 'all spheres of production'. This passage from Marx is also wholly applicable to the category of differential rent, which Marx always understands as *capitalist* land rent. If the source of absolute rent is the extra surplus value in capitalist agriculture, the source of differential rent, as of all extra profit in industry, is the total fund of surplus value of all capitalist society as a whole, and the *distribution* of it, the *titles* to it, depend on private ownership of land of *varying fertility*. This means that differential rent is not based on the land—Marx constantly repeats this—but on the common source of all surplus value. What is based on the land is only the right to a definite share of it for the owners of different plots of land of varying fertility.

A great temptation to use the concept of differential rent in the state form of agricultural production under the Soviet system arises from the fact that there are different degrees of fertility as between different plots of land and different locations of cultivated land in relation to the markets for the disposal of agricultural products. But this difference, in so far as it is connected with difference in natural and geographical conditions, *does not depend on the system of production and distribution*, and the concept of *capitalist* land rent is precisely connected with *an historically determined, specific system of production*. To forget this means to make that very mistake of naturalizing, reifying the production-relations of the Soviet system of economy, and vulgarizing Marxism, of which I spoke at the beginning of this chapter. If the financial agents of the People's Commissariat of Finance take into account the difference in the remunerativeness of different peasant holdings caused by difference in the fertility of the soil, the resulting difference in the taxation of, say, two middle-peasant holdings which are identical in every other respect except remunerativeness is in no way a method of 'capturing' the differential rent in Marx's sense of that category. If we were to justify in this way the need for taxing the countryside and the need for different tax rates for different groups of the peasantry, any peasant who was well read in economics and knew his Marx would be able to give us a good drubbing and would be quite right to do so. To justify the need to tax the countryside and to differentiate in this taxation we do not require, except in relation

to capitalist or semi-capitalist agriculture, to drag in Marx's teaching on capitalist land rent. It is useful to re-read his warning against a possible mistaken understanding and interpretation of his theory. I shall come back shortly to the question of what it is that we tax in the form of the single agricultural tax.

And so we can speak of capitalist land rent in Marx's sense only in proportion to the development of capitalist methods of working land and capitalist leasing of plots of land for other purposes, that is to say, not at all in relation to the *predominant* system of production-relations in agriculture in the U.S.S.R.

Let us look more closely at what the situation is in this sphere. To the capitalist type of land tenure belong pure land concessions such as, for example, the well-known Krupp concession in the Ukraine. The concessionaire's workers create surplus value; the concessionaire may here capture for himself both the part of it which we conventionally regard as the source of absolute rent and the part of which we conventionally regard as differential rent. From this follows both the direct right and the economic possibility for the state to capture in its turn, in the form of taxes and proportional deductions, the product of the concession's 'capture'. The same applies to pure forest concessions. In cases with mixed agricultural and forest concessions we have a state-capitalist¹ type of rent. We can also speak of capitalist rent in relation to the rent-taxation of the land on which private factories stand, land leased for private farming, and so on. Along with this goes rent for state land leased for cultivation in big peasant holdings which use wage-labour. Finally we still have to undertake (and in this matter we have been extremely dilatory) the task of imposing rent taxation on all kulak holdings which use wage-labour, and on allotments. These kulaks are, it is true, not exactly those capitalist farmers of whom Marx spoke, but in essentials, despite the very low economic level of the kulak economy from the standpoint of the capitalist form of cultivation, basically and as regards tendency of development we are here dealing with a group which can and must be subjected to a special rent-taxation. Whether this be effected simultaneously with or separately from general income taxation is of no importance. While the state does not tax the right of peasants who do not exploit the labour of others to cultivate publicly-owned land, this tax can be applied to those who do exploit labour.

¹ In the conditional sense of this term in which it was used by Lenin.

In all the cases we have listed we have grounds for talking of capitalist land rent from the standpoint of its origin in the unpaid labour of workers. But the originality of our relations of *distribution* in the sphere under consideration consists in the fact that the subject exacting rent is not a private owner of land, nor a capitalist state, but a socialist state. Resources from rent-taxation enter into the state budget and indirectly into the socialist accumulation fund. In the given instance, rent is capitalist in its source of origin and socialist in its destination. But this means that we are here faced with a quite special relationship of distribution, which has arisen only subsequently to the socialist revolution and was quite unexamined in this form by Marx, who gave us only an analysis of the classical relations of abstract, pure capitalism.

As regards the land-taxation to which state enterprises are subjected on the part of the state or its local organs, it would be ridiculous here to speak of capitalist rent, in Marx's sense, being drawn from the built-upon pieces of land. Just as one cannot speak of Gomza's 'profit' in Marx's sense of the word, so, even less, can one speak of rent in the given instance, though it has not been thought necessary to expel this term from everyday speech, for lack of an alternative. What confronts us here is not rent but only one of the forms of distribution of state resources within the state sector, having only the outward appearance of a relation of capitalist society, copying only the form and title, and in fact being one of the ways in which planned distribution is misrepresented. If we transpose the corresponding graphs in the local and state budgets, and also in the balances of the state enterprises subjected to tax, then all this rent will disappear like smoke; without the slightest change in the spheres of production, or that of distribution *between classes* (not merely between departments of one and the same class).

In conclusion it only remains for us to discuss the rent-taxation of non-capitalist agriculture. After all that has been said above it is quite obvious that direct rent-taxation of the peasants who do not exploit wage labour, and taxation of *that part of the income of the kulaks which is created by the personal labour of the kulaks*, is not land rent in Marx's sense of the word, but alienation for the benefit of the state of part of the surplus product of petty production. This taxation does not differ in principle in any way from, for example, the taxation of artisan and handicraft industry. It is

economically possible in so far as surplus product exists. And this product is increased in proportion as the productive forces in the peasant economy develop. Poor-peasant and 'weak'-peasant holdings, which as a rule do not create surplus product, are exempted from this taxation, in accordance with our trading practice, and quite correctly exempted. This taxation is economically not only possible but necessary and expedient, in so far as the expenditure incurred through the state budget as a whole must be covered by both the peasants and the workers. It is necessary also because expanded reproduction in industry, at a sufficient rate, the development of the railway network, canals, electrification, and so on, are extremely necessary for the peasant economy too; without the support of a rapidly developing industry this economy cannot develop its productive forces even within the limits of petty production, and still less can it rise to the higher stage of producers' co-operation. The October revolution, the socialization of industry and transport, have their own logic. If we are advancing along the road of restricting and abolishing the operation of the law of value, then, if this law is not replaced with the necessary speed by the operation of the law of socialist accumulation, by the alienation of the surplus product of the countryside which is inevitable at this stage, it will not be possible to achieve a normal economic development of the country, with the necessary proportionality.

The production-relations of Soviet agriculture are extremely complex. It is enough to point merely to those extremely peculiar relations of exploitation of a primitive character, connected with the undeveloped state of purely capitalist relations, which are described in Comrade Kritsman's recently published book.¹ What we have said about rent does not in the least exhaust the analysis of all the kinds of capitalist relations in the Soviet countryside. We have said nothing about that 'rent' which is received by the non-cultivating peasant for the land which he leases to the kulak, realizing and selling that right to the land which is guaranteed to him by the Soviet constitution. We have not examined either those special forms of 'hiring' which Comrade Kritsman discusses in his book, when the person who is formally the one who hires is really the exploited one and the 'hired man' is the exploiter. These and other relations of exploitation, for example, exploit-

¹ A. Kritsman, *Class Stratification in the Soviet Countryside*.

ation by usury, many aspects of production-relations connected with agrarian resettlement under conditions where there is a shortage of instruments of production, reviving seasonal work, the interweaving of domestic industrial production with agriculture—all this, partly in connexion with the problem of rent, we intend to analyse not in the theoretical part of this book but in a volume specially devoted to a concrete analysis of our industry and agriculture.

In the same way, in the last section of this chapter, devoted to interest and the credit system, we shall not go beyond the limits of a most general theoretical analysis, leaving to the next volume a more concrete study of the factual material.

Interest. The Credit System

Theoretical analysis of the category of interest in the Soviet economy does not present great difficulty, because the corresponding relations in those sections where it is a question of interest in the true sense merely reproduce old, long-familiar phenomena, thoroughly studied by political economy, regardless of whether what is involved is trading money, as later on an element of productive or trading capital, or money-lenders' interest in the field of peasant economy. As regards interest merely so-called, interest as one of the imitations of capitalist forms which have already been studied in connexion with certain other categories, there is little left to be analysed, since the fictitiousness of this category leaps to the eye. From behind the miserable curtain of capitalist form and bourgeois terminology and phraseology (which some specialists indulge in with a most serious and important air) the body of reality sticks out in all its nakedness. The problem becomes more complicated only in the case of the credit system and its tendencies of development and transformation.

The role of money-lenders' interest in our petty production, especially in peasant economy, was enormous before the war and the revolution; it is very great and constantly growing at the present time. Usury, as a parasitic growth on petty production, has a history of many centuries and has been adequately studied. Historically it has played a twofold role: either it prepared the elements of socialization of the labour of the petty producers, from which it also sucked surplus product and part of the minimum of means of subsistence, or else it merely sucked the juice out of

petty production, exhausting and ruining it without influencing its transition to a higher type of organization of labour. In our countryside usury has played and is now playing the second of these roles, in the overwhelming majority of cases. We shall not dwell here on certain specific peculiarities possessed by our usury, and we postpone examination of this question until we make a concrete analysis of the entire economics of Soviet agriculture.

As regards capitalist interest, Marx, as we know, defined it like this: 'Interest . . . appears originally, is originally and remains in fact merely a portion of the profit, i.e., of the surplus value, which the functioning capitalist, industrialist or merchant has to pay to the owner and lender of money-capital whenever he uses loaned capital instead of his own. If he employs only his own capital, no such division of profit takes place; the latter is then entirely his.'¹

The question arises, to what sphere of the Soviet economy does this definition of Marx's apply?

A sphere in which interest in the capitalist sense is found is in the buying and selling of money capital on the legal and illegal private money market of the Soviet Union. This means both private credit institutions, such as societies for mutual credit, and, mostly and mainly, the illegal market for loan capital, with its specific rules, a very high rate of interest, deals often made without the law being aware of what is happening, and so on. The peculiarities of the private money market in the U.S.S.R. are not connected with the nature of interest, for this is a sphere where the relations of the state economy are not interwoven with private economy; they are connected with the fact that private capital in the U.S.S.R. is industrial capital to only a very small extent. It figures predominantly in the form of trading and loan capital, and the proportion of loan capital is increasing as, with the development of the network and turnover of the state and co-operative capital, the sphere of application for private capital in trade grows narrower. It steers clear of industry for a number of reasons connected with the socialization of large-scale and medium industry, tax policy, the laws relating to the protection of labour, the recent restrictions on the right of inheritance, the slower rate of turnover and accumulation of capital in industry and, finally, the risk to which private capital is exposed when it gives up the mobile form

¹ *Capital*, Vol. III, part I, p. 355, Stepanov's translation. [F.L.P.H. English edition, p. 363.]

of money capital for the congealed form of industrial means of production, in which form private capital comes under much greater and better supervision and accounting on the part of the state which is imbued with class hostility to it. This natural narrowing of the sphere of investment of private capital maintains the relations of private credit in a form which is under-developed capitalistically, a circumstance which is especially expressed in the usuriously high rate of interest.

A somewhat different situation, from the theoretical standpoint, has to be noted in the sphere of credit relations when private capital possesses credit with the state bank and other similar state institutions. Here the category of interest reflects the specific peculiarity of our economy, as a sphere in which capitalist, state-capitalist, and socialist relations of a transitional type co-exist and are interwoven. The dimensions of legal utilization of state credit are extremely insignificant; illegal utilization of state resources is probably on a larger scale.¹ But this form of credit, in spite of its very modest dimensions in practice, presents a certain theoretical interest. The essence and distinctive nature of this interest consists in the fact that here surplus value is transferred from the private capitalist sector into the socialist primary accumulation fund. From the organizational aspect we have here an interweaving of the two types of production-relations to which most appropriately Lenin's conventional term 'state capitalism' may be applied. From the standpoint of distribution the state here participates in the sharing out of surplus value, which often consists materially of that part of the surplus product of the state economy itself which is 'captured' by private capital from the socialist accumulation fund in various forms and various ways, especially through the machinery of private trade.

Exactly opposite in character is the interest which the state pays on its internal (and external) loans to those subscribers who are private traders, industrialists and petty-bourgeois, that is, above all, peasants. In this instance the interest represents a deduction from the surplus product of the state economy which the state makes in order to obtain on credit from private economy

¹ By illegal exploitation of state credit I have in mind the use by intermediaries, for the purposes of private capital, of resources made available for state purchases or various operations with goods, advanced to co-operatives, and so on.

additional resources for expanded reproduction. The state appears as borrower, private economy as creditor, exploiting for its own benefit part of the surplus product created by the workers in the state economy. When a loan is raised to supplement the resources of the treasury and is spent on general state needs, it is not only the workers who pay the interest, out of the surplus product of the state economy, but also the peasants, in their capacity as taxpayers. If the loan is wholly or partially furnished by the peasants, and correspondingly is wholly or partially used to raise the level of the peasant economy, we have here a case of redistribution through the agency of the state of the resources of private economy for the benefit of private economy, that is, a case of credit which is, if the expression may be used, neutral from the standpoint of direct influence on socialist accumulation. This form of credit may in the future be employed on a wider scale in the U.S.S.R., as a still predominantly agrarian country.

As regards that part of internal loans which is subscribed by workers and office-workers in the state economy, and also as regards the corresponding part of the interest which is paid to them by the state, this relation of distribution has nothing in common with the foregoing, from the standpoint of theoretical principle. The workers and office-workers set aside part of their wages and give it back to the socialist accumulation fund; they receive in return for it not interest but something in the nature of a bonus for reducing their personal consumption, a reduction which means at the same time an increase in the possibilities of expanded reproduction within the sector of the state economy and its workers. What we have here is essentially an *internal* redistribution of resources, a redistribution between the consumption fund and the reproduction fund within the unified state sector. Like inter-peasant distribution through the state machine, this internal redistribution in the socialist sector may play a very big role in the future, as wages rise. However, this system of internal credit, together with bonuses for saving, cannot be unreservedly placed in the category of interest in the usual sense of the word.

Finally, state enterprises themselves take part in subscribing to internal state loans, especially to loans for internal reconstruction. To talk of interest in this connexion, in the sense which political economy gives to the word, is as meaningless as to talk of rent in

Marx's sense of the word in connexion with the payment for the use of land which state enterprises make to the local Soviets. We have here simply a redistribution, within the state sector, of new, free state resources. It is nothing more than an imitation of the *form* of capitalist relations, an imitation which will cease when the state economy finds from experience and gives organizational form to new methods of planned redistribution of new resources, methods which will conform better to the state economy's whole internal structure.

It is equally absurd to talk of interest in the capitalist sense in the wider sphere in which this 'category' is employed in the Soviet system, that is, in the sphere of the giving of credit by state institutions to state industry, transport, and trading organizations. This is the most extensive sphere in which the state economy's relations of production and distribution are disguised in the dress of the capitalist category of interest.

Let us assume that the state has a certain quantity of resources which it can use to increase the fixed and circulating capital of its trusts. Let us assume that a certain trust which needs these resources obtains a corresponding credit from the State Bank or from Prombank.¹ It pays 'interest' on the capital which is lent to it. From what source does it pay this interest? From its own surplus product. To whom does this surplus product belong? To the socialist state. Where do all these sums of money go which are received from the payment of interest on the capital lent to the state trusts? To the same state. It is quite obvious that here we have a quite different relation from that under capitalism, when one stratum of the capitalist class, namely the entrepreneurs, working not with their own but with borrowed capital, yield part of their surplus product to the owners of the capital which has been lent them, in the form of interest, the amount of which is determined on the basis of the spontaneous play of supply and demand for loan capital. Contrary to this, our socialist state, if we may in this connexion make the relevant comparison with capitalist relations, is in the position of an entrepreneur who works with his own capital and does not pay interest to himself, though he may, for the salving of his book-keeping conscience, attribute some interest to himself in his ledgers. If we were, let us say, to introduce into our practical life some formally different

¹ [Industrial Bank.]

procedure for advancing credit to state industry, that is, if we were to distribute credit resources from a single centre and its departments, according to a definite plan, and if in this centre and its departments there were concentrated all the present fund of credit and the whole new surplus product created every year by all the state enterprises without exception, then interest would cheerfully disappear, without any change in the essence of the production relations within the state sector. In essentials even now, with a rather unorganized distribution of credits, the needs of all branches are taken into account—their own surplus product as joined to their already functioning capital, the necessary fresh construction, and so on. I do not know to what extent the existing system of credit, which often reflects the relation of forces between . . . departments, is a suitable system. But even in its imperfect form, with a perhaps unnecessary copying of capitalist forms of banking, in everything that concerns relations within the state sector it is essentially a variety of planned distribution of the resources of the state economy.

After all that has been said above there remains little for me to say about the role of our credit organization in the entire system of commodity-socialist relations of production and distribution, especially as sufficient has already been said in the chapter on socialist accumulation about its role in the sphere of primitive socialist accumulation.

As is known, Marx on the one hand pointed to the important role which the credit system of bourgeois society can play in the *transition* to a new mode of production, and on the other hand he warned against over-estimating the importance for socialist production of the system of accounting and control to which capitalist society had attained thanks to credit organization.¹

It is, of course, not at all accidental that we have perceived the

¹ 'Finally, there is no doubt that the credit system will serve as a powerful lever during the transition from the capitalist mode of production to the mode of production of associated labour; but only as one element in connexion with other great organic revolutions of the mode of production itself. On the other hand, the illusions concerning the miraculous power of the credit and banking system, in the socialist sense, arise from a complete lack of familiarity with the capitalist mode of production and the credit system as one of its forms. As soon as the means of production cease being transformed into capital (which also includes the abolition of private property in land), credit as such no longer has any meaning. This, incidentally, was even understood by the followers of Saint-Simon.' (*Capital*, Vol. III, part 2, p. 148, Stepanov's translation. [F.L.P.H. English edition, pp. 593-4.])

methods and forms of capitalist credit organization in our system not only in the sphere in which the state economy is interwoven with private economy but also in the sphere of the distribution of resources within the state sector. It is quite obvious, however, that if within the state sector the forms of credit are entirely filled with new content, this results from the historically higher type to which the state economy belongs, as a collective economy, in the first place, and a planned economy, in the second. The planning, accounting, and control which result organically from the socialization of the instruments of production in the most important sections of the Soviet economy are essentially *a higher type of planning and accounting than those to which the most advanced and centralized capitalist credit system could attain*. This is what explains the fact, now quite obvious, that the growth of the elements of planning and organization in our economy in recent years has, if one may so express oneself, completely exhausted all the progressive content which can be included in the banking system of capitalism, and the state economy has had to go beyond those comparatively limited possibilities which this institution can offer for what is the chief sector of our economy, the collective economy of the proletariat.

The sphere of reciprocal relations between the state and private economies is another matter. Under War Communism the predestined character of the system of confiscation of agricultural surpluses and 'planned' supply of industrial products to the countryside (in principle: those who gave the state the most in surpluses received the least, or nothing at all, from the state) consisted in the fact that we were obliged in the circumstances of war to impose an appearance of socialist *distribution* upon peasant economy, which continued to remain petty-bourgeois in the sphere of production. Under the present commodity-socialist system of economy, however, the state economy, on the contrary, is itself obliged to adapt its system of exchange (inside the country only formally, but outside it in actual fact) to the system of exchange of private economy, which can only be a system of commodity-money distribution. And in this sphere the credit system must play an *enormous progressive role*, because the banking system of capitalism constitutes an historically very much higher type of organization of control, accounting and distribution of productive forces than the quasi-mediaeval, unorganized

market of simple commodity production, which is all that simple commodity production can rise to 'without outside aid', in the sphere of spontaneous regulation of the economy. When Lenin many times persistently stressed the progressiveness of state-capitalist relations of production and exchange, as compared with the relations of simple commodity production prevailing in peasant economy, he always had in view that aspect of the relations between state economy and private economy, and therewith also the corresponding relations as regards credit. This 'towing' role of our credit system is expressed, and should be still more markedly expressed, in the field of advancing credits to peasant co-operatives of different kinds, including credit co-operatives, in commodity credit, in land-improvement credit, in the system of internal loans placed in the countryside, and in advances to producers (at present only to flax-growers, cotton-growers, tobacco-growers, butter-makers; later, undoubtedly, to producers of grain for the market, &c.).

In conclusion it must be said that, if money is the category of commodity economy in which the reification of production relations between men attains its highest expression, we can observe in the Soviet economy a certain progress, especially in a reduction in the element of reification and in achieving a greater transparency in production-relations. This has been achieved most of all in relations within the state-sector, where the money relations have assumed mainly a role confined to calculation and accounting in relation to the means of production and consumption, while money is dying out in its role as one of the instruments for achieving spontaneous equilibrium in production.

However, money fetishism, expelled to some extent from the state economy, continues to prevail in private economy and in the territory which links the state and private economies. This leads, in the sphere of ideology, to the fact that the workers in the People's Commissariat of Finance, a commissariat which is located at the point of junction between private and state economy, are inclined to revive this fetishism in a rather peculiar, not to say degenerate form. In a country in which there is no gold standard and which has been obliged in the sphere of economic leadership to replace the elemental wisdom of gold, as the instrument of regulation under the law of value, by a planned policy of distributing means of production and means of consumption through

a paper currency, they systematically appeal to the golden wisdom of the 'black bourse', and when the paper *chervonets* deviates from the gold ten-rouble piece they fall into panic fear and make interventions with gold which are unnecessary and disadvantageous to the state, enabling the Nepmen to change paper *chervontsi* into gold. A very crude mistake in the sphere of financial policy here results from a crude failure to understand the role of gold in our economic system—a mistake which in its turn results from failure to understand the role of gold generally. A bourgeois country, which has *gold circulation*, in a period of industrial crisis which passes into a financial and credit crisis or is accompanied by such crises, sacrifices to the value of gold the values of tens of millions of commodities; all deals begin to be made in cash, and thereby gold comes forward in the role of *ultima ratio*, the last court of appeal for establishing the correctness of the proportions in the distribution of productive forces between the branches and the amount of total production as compared with effective demand. In this spontaneous way gold circulation is saved in a society which has no other way of regulating economic relations. But to save, on the 'black bourse', the parity of the paper *chervonets* with the gold ten-rouble piece in a country *where there is no gold circulation* but where there *are* other methods of regulating economic and particularly currency relations, is to imitate uncritically the most irrational and most disadvantageous aspects of capitalist regulation in general. With the degree of organization of the state economy already attained, with the concentration of nearly the whole credit system in the hands of the state, and above all with the maintenance of the monopoly of foreign trade, we need gold only for balancing our accounts with foreign countries, when imports exceed exports, and not for obtaining from the 'black bourse' evidence of the trustworthiness of the *chervonets*. On this question I resort to Marx's aid and quote a passage from Volume III of *Capital*, which is noteworthy both in itself, and, what is most important, because it might have been specially written for us. Here it is.

A depreciation of credit-money (not to mention, incidentally, a purely imaginary loss of its character as money) would unsettle all existing relations. Therefore, the value of commodities is sacrificed for the purpose of safeguarding the fantastic and independent existence of this value in money. As money-value, it is secure only as long as money is

secure. For a few millions in money, many millions in commodities must therefore be sacrificed. This is inevitable under capitalist production and constitutes one of its beauties. In former modes of production this does not occur, because, on the narrow basis upon which they stand, neither credit nor credit-money can develop greatly. As long as the *social* character of labour appears as the *money-existence* of commodities, and thus as a *thing* external to actual production, money crises— independent of or as an intensification of actual crises—are inevitable. On the other hand, it is clear that as long as the credit of a bank is not shaken, it will alleviate the panic in such cases by increasing credit-money and intensify it by contracting the latter. The entire history of modern industry shows that metal would indeed be required only for the balancing of international commerce, whenever its equilibrium is momentarily disturbed, if only domestic production were organized. That the domestic market does not need any metal even now is shown by the suspension of the cash payments of the so-called national banks, which resort to this expedient in all extreme cases as the sole relief.¹

I strongly recommend this quotation to our financial experts. Unfortunately, lack of space prevents me from developing here all my views on the role of paper money and gold in the Soviet economic system, to which I must return not in the general theoretical but in the concrete part of this book.

Co-operation

The fundamental things about co-operation in the Soviet economic system were said by Lenin, both in his last articles on this subject and previously. In this section I shall say only a few words about co-operation in connexion with the whole foregoing exposition.

The relations which are formed in co-operation do not constitute in themselves any special category in the capitalist system of production and exchange. Producers' co-operatives are small islands not of social but of collective-group ownership of the instruments of production, islands which are subordinated in the sphere of production to the basic laws of capitalist economics and which exist in the sea of capitalist relations *only in so far as* they are so subordinated. Wherever producers' co-operatives cannot adapt themselves to the law of value, they perish. The same must be said of the much more widespread and important consumers' co-operatives. This form of co-operative, whether it works on the

¹ *Capital*, Vol. III, part 2, pp. 55-56, Stepanov's translation. [F.L.P.H. English edition, p. 504.]

basis of the Rochdale principles or any others, is in exactly the same way subordinated to all the laws of capitalist exchange and is capable only, through a certain rationalization of distribution, of securing merely a partial capture of trading profit for its members.

Co-operation assumes special significance only after the socialist revolution and especially in a country like the U.S.S.R., where an organized state economy (or more, correctly, a state economy which is becoming more and more organized on the basis of a production plan) confronts an enormous sea of dispersed petty production—peasant, artisan, and handicraft. The special role of our co-operatives results precisely from the co-existence of these two systems of production, linked up by exchange and credit into a single economic organism.

The basic question to be examined here is that of the role played by the co-operatives in the struggle between the planning principle and the law of value, and to what extent co-operation is either a passive battlefield for this struggle in a certain sphere of exchange and production or a bearer of one or other of the two principles.

Under capitalism, as we have said, co-operatives can exist only if they adapt themselves to the law of value. Under our system the co-operatives, which inevitably become the arena of struggle between the two basic laws of our economy, must adapt themselves to the principle which will conquer, and only secondarily to the principle which is closer to them by virtue of the type of social organization of labour which lies behind it.

Let us begin with the first point. Since co-operatives can exist in capitalist society without in any way threatening its existence, this shows quite plainly that co-operation in itself contains no active principle of transformation in the direction of socialized production-relations. The Utopians of co-operation affirmed the contrary, but were beaten by the entire practical experience of capitalism and of co-operation itself. Co-operation can play a socialist role only in so far as it enters as one link into a system which is developing towards socialism *on the basis of its own inner forces and tendencies*. Such a system is the state economy of the proletariat, which relies in its development upon the growth of large-scale socialized production. The collective economy of the proletariat, both because of its immanent laws of development and because of the external situation, must either develop rapidly or else perish. There is no third way. In so far as it develops

rapidly, to that extent the co-operatives, if they are not included in the state economic system, at least form a sort of less stable, less closely connected, less organized *prolongation* of it (like the tail or a comet), extending its tentacles into the interstices of exchange between petty production and the state economy, and here and there beginning co-operation between petty producers on a production basis.

As regards the second point, here we must make the following observation. The development of the working of the law of primitive socialist accumulation, in which tendencies of advance to socialism are concentrated at this stage, signifies the strengthening of a certain type, the collective type of organization of human labour. The strengthening of the working of the law of value both expresses and at the same time facilitates tendencies towards a different, purely capitalist organization of labour. Co-operation, by its social type of organization, is closer to the collective type of organization of labour. In this sense its fusion, under Soviet conditions, with the state economy is a more natural process than its orientation upon private capital. This aspect is not, however, the decisive one, as we have already said. If the development of socialist relations in our economy, which have their basis in industry, were to stop or to be very much slowed down, and capitalist relations began to grow faster, then, regardless of their social structure, the co-operatives would either break up at once, or else the majority of them would desert their positions as rear-guard of the state economy, in order to go over to the side of capitalism. It must not be forgotten that, with the exception of workers' co-operatives, which essentially do nothing more than rationalize the system of distribution *within the state sector* and so constitute a different relation of distribution, all the other co-operatives are based on petty commodity production. This petty production in bourgeois society is at best neutral in relation to socialism, while it secretes capitalist relations and goes on secreting them to a substantial degree under the dictatorship of the proletariat.

Experience has shown that consumers' co-operatives can play and do play an important role in establishing a direct link between the petty producers and state industry. In so far as the state carries out a policy of planned prices for its own goods and firm prices for the products which it buys from the petty producers, in so far,

consequently, as it carries out a certain restriction of the working of the law of value, to that extent the consumers' co-operatives participate in this restriction through their trading network. On the other hand, however, as experience has shown, these co-operatives resist the pressure of the law of value far more feebly than the state organs do. They do not stick to their agreements with the state organs regarding maximum retail additions to wholesale prices. They re-sell to private capital goods they have received from state trusts on the basis of most favoured treatment, and often on credit. They often break away from buying operations at firm prices, and so on. In all these cases and many others the law of value overpowers the planning tendencies of the state economy. Co-operation among the petty producers in the sphere of trade does not encounter any serious obstacles under the dictatorship of the proletariat. Quite the contrary, if one remembers those privileges which the Soviet state accords to co-operatives and which cannot be accorded by any other régime. Unification proceeds fairly smoothly here, and not only owing to these privileges, but also because it does not yet touch the sphere of production, which remains petty, scattered commodity production. The petty producer has every reason to support a trading apparatus which sells more cheaply. And when both the co-operatives and private traders sell at the same price, the petty producer can choose between them, taking into account quality of goods, credit facilities, and so on. One must never forget that, for example, consumers' co-operatives, which are not state organizations, are still less *social* organizations, either from the standpoint of the amount of share capital contributed by the members or from that of organized and systematic control by the members over the activity of the management. A consumers' society is in the majority of cases still rather a shop without a strong boss than a *stable organization of people* who control a shop. It is easier to set up a network of shops than a network of social organizations.¹

But even ideal co-operation between petty producers in the sphere of exchange does not solve the problem of their co-operation

¹ In his article 'On Co-operation' Lenin wrote that by support of co-operative trade 'we must mean assistance for co-operative trade in which *really large masses of the population really take part*. Strictly speaking, when a co-operator goes into a village and opens a co-operative store, the people take no part in this whatever'. (Lenin, Vol. XVIII, part 2, p. 141.) [*Articles, 1923*: F.L.P.H. English edition, p. 19.]

in the sphere of production. Co-operation in the sphere of exchange merely *brings* us to this fundamental problem.

We have already said several times that the struggle between the law of primitive socialist accumulation and the law of value means a struggle for supremacy between two different ways of organizing human labour—the collective way and the private capitalist way. If we strike the balance of the struggle between these two ways of organizing labour, exclusively in the field of agricultural production, putting our communes (though they are extremely primitive forms of collective labour) along with the state farms in one scale and the kulak holdings in the other scale, then we shall have to recognize the following. The state farms have until recently *contracted* their area to the advantage of petty production, the communes and *artels* have slowly increased their area, and the area of the kulak and semi-kulak holdings has increased more rapidly.¹ The reason is that the kulak holding, which grows organically out of scattered petty commodity production, has hitherto provided more opportunities for the organization of labour in agriculture on capitalist or semi-capitalist lines than the state economy has provided for the organization of labour on its lines. The balance can be changed not by some socialist miracles on the territory of petty peasant production, taken by itself, but only by a more profound influence of large-scale urban industry on peasant farming. As to what concrete forms this will assume one can at present speak only in very general terms. Take, for instance, the tractorization of farming; where the tractor is acquired by society as whole it will facilitate the transition to the social cultivation of the land throughout the countryside. The introduction of state tractors on a mass scale among the poor peasants, on the basis of leasing or some other method, and the cultivation of the land by the poor peasants using these tractors, among the independent producers, can signify *the beginning of the separation from farming, and the mechanization, of the functions of ploughing and threshing*, that is, the separation from petty production of the operations which are most easily socialized. Electrification will mean the separation

¹ I am not here speaking, of course, about the balance in the dimensions of the *whole economy*. Here the state economy will conquer; every new year it gathers in co-operation around its machines very many more ruined poor peasants than on the territory where it carries on farming activity itself, and it must be supposed that it will organize co-operatively in this way alone more territory than the kulak holdings cover.

of the motive power from part of the farm work, with concentration of the production of this power in large state-owned power stations. Some functions of farming are already co-operatively organized under the pressure of the co-operation which has been achieved already *before* this, in the sphere of exchange, especially selling, as, for instance, in the dairying co-operatives.

When Lenin in his article 'On Co-operation' said that co-operative enterprises under our system do not differ from socialist enterprises, he had in mind not co-operation in *exchange*, based on petty commodity economy in *production*, but producers' co-operation as a *prolongation* of the state's planned economy. This is quite definite. He wrote: 'Under our present system, co-operative enterprises differ from private capitalist enterprises because they are collective enterprises, but they do not differ from socialist enterprises if the land on which they are situated and the means of production belong to the state, i.e., the working class' (Vol. XVIII, part 2, pp. 143-4).¹ Lenin's idea is quite clear. Co-operation around means of production belonging to the state is the organization of labour characteristic of socialism and both historically and in class character is to be counterposed to co-operation by workers around machines which belong to the capitalist class. This means that the transition to socialism is completed in the sphere of *producers'* co-operation, for which co-operation in exchange merely clears the way. But our successes in this very sphere of co-operation between petty producers are as yet very few, and the *concrete forms* (as against the general line) of this process are still quite unclear. Only one thing is clear: everything depends on the quickest possible development of industry, which is the transforming centre of the whole economy and the only active principle of *socialist* co-operation.

As regards the sphere of influence of the town over the countryside through credit, we must observe the following. With a regular goods famine, which means a famine of fresh capital for developing industry, credit cannot assume wide scope. It will acquire big significance only when commodity reserves have been accumulated in industry—above all, of course, in heavy industry, because producers' co-operation in the countryside can receive the maximum impetus only from the sphere of production of means of production for the peasant economy.

¹ [Articles, 1923: F.L.P.H. English edition, p. 24.]

APPENDIX

ONCE MORE ABOUT SOCIALIST ACCUMULATION: REPLY TO COMRADE BUKHARIN

IN *Pravda* of 12 December 1924 there was published a long article by Comrade Bukharin in which he attacked the chapter of my book *The New Economics* which was published in No. 8 of *Vestnik Kommunisticheskoi Akademii* under the title 'The Fundamental Law of Socialist Accumulation'.

The questions raised in my article are basic questions of the theory of the Soviet economy, and those raised in Comrade Bukharin's article are basic questions of our economic policy: they call for the most thoughtful attention. This article is a hasty and incomplete reply to Comrade Bukharin. My book as a whole constitutes a more circumstantial reply to him.

First of all, I must warn the reader that neither Comrade Bukharin's article nor my present answer can be thoroughly and fully understood unless one has read my work in the *Vestnik*. At any rate I was not always able to recognize in Comrade Bukharin's exposition the ideas which I had developed in my article in the *Vestnik*. I am obliged therefore to resort here briefly to setting forth my point of view in my own words and from time to time in quotations from the article.

The fundamental and quite impermissible mistake made by Comrade Bukharin (if it is a mistake) is one which he carries all the way through his article and which compels him to strike a mile wide of the mark so far as the fundamental question in dispute is concerned. This is it. My article is an attempt at a theoretical analysis of the Soviet economy or, more modestly, an attempt at an approach to such an analysis. Our Soviet economy is divided into state and private sectors. Each sector has its own particular type of regularity in development. But both of them enter into the unified organism of the whole economy of the union as a whole. For the purpose of theoretical analysis it is necessary, as a matter of method, to examine each of these two regularities

separately and then to explain how the resultant we know in real life is obtained. But the tendencies of development of the state economy have to be examined in their pure form, that is, they have to be analysed as though the state economy were developing without encountering resistance from private economy; one has to analyse the regularity of the state economy in its optimum form. This is the only correct method, bequeathed to us by Marx. Only this method enables us to find our way among the motley facts of real life and to understand the inner meaning of all events.

But what does Comrade Bukharin do?

He confuses an analysis of the regularity of development of the state economy (an analysis in which it is necessary temporarily to abstract oneself from the economic and political resistance of private economy) and the conclusions drawn from this analysis, with the actual economic policy of the proletarian state and, of course, 'exposes' a contradiction here without much difficulty. I do not know what to call such a confusion, such a mistake. Comrade Bukharin understands very well what the difference is here. He has successfully used this method of study more than once in his own economic works; our entire young generation are studying according to this method. One of two things must be true: either he now refuses to understand the nature of this method of analysis, which is not very likely, or he has sacrificed theoretical honesty to the tasks of current polemic. And if the latter is the case he must be photographed *in flagrante delicto*.

What is the essence of my method and the structure of my argument?

The October revolution signified a breakthrough by mankind, on one sector of the globe, into a new type of economy. This new economy is taking shape, struggling for existence and consolidating itself, developing a number of regularities which are unique to itself. The basis of this new economy, bursting into the laws of commodity economy and changing them, is the state economy of the proletariat. Since this economy exists it cannot but struggle to maintain its existence. And struggling for the existence of the state economy, surrounded by the ocean of world capitalism, means struggling to extend it, to subordinate the pre-socialist forms to it in some cases, in others to adapt these forms, in yet others to absorb them. Fighting for the existence of the state economy means at the present stage hastening as fast as possible through

that dangerous period of its life when it is both economically and technically weaker than capitalist economy. This process of extending and consolidating the state economy can proceed both at the expense of its own forces and resources, that is, the surplus product of the workers in state industry, and at the expense of private, including peasant (itself including middle-peasant) economy. Can it be otherwise? To express the problem in the most easily understood words—can the burden of developing state industry and reconstructing its whole technical base be borne on the shoulders of our three million workers alone, or must our twenty-two million peasant households take a share in this too? The experience of our existence during the seven years of the revolution has answered this question and continues to answer it in the affirmative. Nor can things be different in the future. But since expansion also at the expense of private economy is inevitable for the state economy we have to ascertain through what channels this flow of resources will pass into it, and what the tendencies of development of the state economy are in this direction, taken in their pure forms, that is, in abstraction from the resistance of the milieu of private economy, and thereby also from the actual policy which the workers' state *has* to carry out in accordance with economic and political considerations. Do the spontaneous tendencies of the state economy, in its development at the expense of private production, go further than is actually within the reach of the state's economic policy? Naturally they do. But does this mean that the *scientific analysis* of these tendencies, the formulation of the optimum of these tendencies, means a criticism of the economic policy of the state and the party? A criticism of a policy which, whatever it may be, will *always* fall short of this optimum? The question is meaningless enough. But this meaningless question has to be put because Comrade Bukharin does not give the reader the slightest warning that my article is devoted not to the economic policy of the state but to a theoretical analysis of the basic regularities of our economy. These regularities have grown historically out of the October revolution, out of the very fact that the state economy of the proletariat exists and is developing. One can observe and describe them. This helps us to find our bearings in the economic situation and makes it possible for us to commit fewer mistakes in practical policy. In politics one can only sense them vaguely and act in groping fashion, going from

case to case, obtaining the necessary 'notification' from life *post factum*. But when an analysis of these laws has been made one must show that this analysis has been *made wrongly*, and not mix up tendencies of development with economic policy, not cavil at points of terminology if one has nothing to say against the essence of the matter.

But this does not mean at all that no definite conclusions for the state's economic policy follow from my book. Such conclusions do follow. They will be drawn in that chapter of the book where the relation between the economic systems will be examined along the section-line of class relations between workers and peasants, where an analysis of our economic policy will also be given; Comrade Bukharin should have waited for this part of my book to be printed. He would then doubtless have seen that the political conclusions which he draws from my present article are not drawn at all by the author of this article. He would also not have been obliged, in order to show the scope of his polemical panache, to criticize, instead of my actual views, his own constructions which he merely attributes to me.

The Children's Colonies of Comrade Bukharin

The first point in Comrade Bukharin's attack is the quotation in his article of my formula for the law of socialist accumulation, where, first, the term 'exploitation' is used and, second, the term 'colony'. Not having taken the trouble to understand what is meant, and admitting that he finds it 'hard' to understand this, Comrade Bukharin all of a sudden declares categorically: 'There can be no doubt that Comrade Preobrazhensky sees the workers' state as possessing colonies'. Anyone who simply reads what Comrade Bukharin has quoted from me about colonies must perceive the complete absurdity of this statement. In the second part of my formulation of the Law I said that after the socialist revolution in the capitalist countries the victorious proletariat will have to reduce the non-equivalence of exchange with those countries which were colonies of the capitalist states and with which they must now establish relations on fresh foundations. That is, colonial slavery, national inequality and the whole system of capitalist colonial plundering will be abolished (p. 58),¹ and non-equivalence of exchange will be abolished in so far as it was

¹ [Cf. p. 88 of this translation.]

connected with the specific capitalist system of exploiting colonies; but non-equivalence of exchange will remain in so far as it is connected with the general relations between socialism and pre-socialist forms of economy. *In other words, it is not that peasant economy finds itself in the position of a colony, but that all colonies find themselves in the position of peasant economy and petty-bourgeois economy generally*, in so far as the structure of a colony's economy is identical with that type of economy, in that it is economically backward. Comrade Bukharin himself is aware that what I am concerned with is *former* colonies, which cease to exist as colonies but remain as equal members of a union in the system of those industrial countries which have gone over to the socialist organization of production. But instead of simply stating that it is necessary to insert in the text the word 'former', Comrade Bukharin bursts out in moral indignation, and with a serious air proceeds to muddle a perfectly clear question.

Now as to the term 'exploitation'. Comrade Bukharin himself recognizes that socialist industry receives and must receive 'surplus value from the petty producers in its accumulation fund'. Having admitted this, that is, having admitted both the fact and the inevitability of non-equivalent exchange with private economy, the balance in every case of exchange being in favour of the state economy, he has admitted my fundamental proposition and thereby deprived himself of the possibility of engaging in a dispute on grounds of principle about all the conclusions which follow from this proposition. Only one thing is left to him: to stretch up on to the heights of principle a dispute about terms, to misrepresent particular matters of detail as fundamental questions, and, besides all this, to confuse relations between classes with relations between economic forms. I spoke in my article about the exploitation of pre-socialist forms by the socialist economic system. If Comrade Bukharin can think up some suitable term—he has always been very good at this—I shall not object, provided this term expresses the essence of the matter, that is, that the balance of exchange of material (which is not the same as the balance of the *commercial* exchange between the systems) between the private and socialist economies is in favour of the latter, and not vice versa. I merely observe that if the term 'exploitation' is transferred from relations between classes to relations between economic systems, then this term is hardly so incorrect as it seems to Comrade Bukharin.

After all, the socialist form, which passes over at a certain level of development into the communist form, strives to perpetuate itself not only by expansion but also by contracting the territory of the pre-socialist economic forms. I understand very well the political considerations which influence Comrade Bukharin when he attacks the term 'exploitation' so strongly. From the scientific point of view these objections of his are without substance. They rather recall the Narodniks' indignation at the scientific Marxist term 'petty bourgeoisie' and its application to the peasantry. Transferring a term from one sphere of phenomena to another does not presume the identity of the phenomena described, but only a certain analogy at the point where comparison is being made.

However, terminology is a small matter. What is worse is that under cover of his outburst of moral indignation Bukharin effects a substitution of one of my concepts for another. I spoke in my article about the exploitation of the pre-socialist forms by the socialist forms, but nowhere and at no time did I speak of exploitation of the peasantry by the proletariat. I deliberately refrained from speaking of this because *exploitation of petty production by socialism does not at all necessarily imply exploitation of the petty producers by the proletariat*. Let us take the following numerical example. Let us assume that the workers produce in a given year new values worth $1\frac{1}{2}$ milliard roubles, of which 700 millions constitute surplus product, which together with, say 800 millions taken from the peasantry go to the maintenance of the state machine in the first place, and, in the second, to expanded reproduction. In the following year, thanks to an expansion of production and a rise in the productivity of labour, the workers produce 1 milliard 800 millions, of which 800 millions constitute surplus product; of the latter sum, 750 millions now go to the state and 50 millions to raising wages. Let us suppose that in this period 50 millions more were also received from the peasantry, that is, a total of 850 millions. It follows that wages have risen at the expense of the productivity of labour of the workers themselves, and at the same time the share which the workers give to the state machine and the accumulation fund has also grown. But along with this, as we see from this example, the share of the product of the petty producers alienated for the same purposes has also increased. *The fact that there is growing exploitation of petty*

production by the socialist form is obvious but there is no exploitation of the peasants by the workers, even when wages are increased. This case is typical for our times and will remain typical for many years to come. The peasant economy is, in this situation, not a colony of state industry but a participant in socialist expanded reproduction. The worker is not an exploiter of the peasant but a collaborator with him in deductions made for the expansion of reproduction, which is needed not only by him but by the whole of Soviet society, by all the toiling classes. And at the same time it is obvious that exploitation of one system by the other takes place. Comrade Bukharin, however, is not against the balance being in favour of the state economy; he is even in agreement with this, provided that surplus product flows into the working class as a class, that is, apparently, not only into the state economic system but into its consumers' budget, which is from my point of view quite optional. And, after making his radical gesture,¹ he has only one request to submit: remove that word 'exploitation'.

I am most ready to agree to removing this word. But in removing it, I consider it appropriate to remind the reader at least of Lenin's words on the struggle between the two systems: "The dictatorship of the proletariat means not only force, though it is impossible without force, it also means a higher organization of labour than the previous organization.

'Force can be used without any economic roots, but then it is doomed by history to perish. But force can be used, relying on an advanced class, on the higher principles of the socialist order, the order of organization. And then it may temporarily meet with failure but it is invincible' (Lenin, 'On the History of the Question of the Dictatorship of the Proletariat', *Kommunistichesky International*, No. 14).²

These lines were written at the end of October 1920, that is, towards the end of the period of War Communism. But Lenin's formulation is of a general character, and with even more vigour

¹ I quote his own words: 'Does socialist industry receive surplus value in its accumulation fund from the petty producers? Yes, there can be no doubt of this. Have we here a transfer of values from the hands of one class to the hands of another, the ruling class? Yes, there can be no doubt of this either. But can we call this peculiar relationship a relation of *exploitation*, using in the crudest way an analogy from capitalist society? Can we on this basis call the proletariat an exploiting class (which inevitably follows from the foregoing proposition)? No, a thousand times no.'

² [Lenin, *Works*, 4th Russian edition, Vol. 31, pp. 314-34.]

than is needed it defends my basic proposition about the struggle between two systems from any reproach of being a departure from Leninism. I again stress that I am not here concerned at all with *what actual concessions the workers' state may have to make to the peasantry*. This question is quite a different one and is not examined in the article. It is useful to recall Comrade Lenin's words quoted above for this reason. Only if one has a vulgar understanding of the Leninist attitude to the peasantry in the NEP period can one consider that Leninism in this field means maximum concessions to the peasants and *only* that. Lenin put forward and defended a policy of making certain concessions to the peasantry as a Communist, that is, he put it forward in the name of strengthening the reinforced-concrete basis of the proletarian dictatorship; these concessions had in view above all the achievement of this basic aim and were never in his eyes an end in themselves. Comrade Bukharin knows all this and knows very much more that is written in Vladimir Ilyich's works. But his attacks on me on this point are of such a character as to suggest that he did not consider it necessary to dissociate himself from the vulgar conception of Leninism. After all, a mere repetition of the words 'worker-peasant bloc', without analysing the real inter-relationship of the economic systems represented by these classes, merely strengthens the vulgar, philistine, petty-bourgeois conception of Leninism on the peasant question, a conception towards which those groups in Soviet society spontaneously gravitate which reflect the pressure of the hundred-million-headed mass of the peasantry in our country.

About the 'Devouring' of Petty-Bourgeois Economy

On this question, as on the question of colonies and as in many other places in his article, Comrade Bukharin from the start sets up a windmill of his own construction and then takes aim and fires at it with an air of profound inner conviction that he is in the right.

In one passage of my article I wrote about the fact that the socialist form of economy cannot survive, if it is surrounded by private commodity production, on a basis of peaceful coexistence. I spoke of the fact that the very existence of these two systems, although they are included in the country's unified system, inevitably leads either to socialist production subordinating petty-bourgeois economy to itself in some cases, adapting it in others,

and absorbing it in yet others, or else to socialist production becoming dissolved in the elemental forces of commodity economy. The word 'devouring' is in this context a synonym for the victory of one system over the other. This word 'devouring' enables Comrade Bukharin to affirm that I depart from Leninism in the way I conceive the further evolution of peasant economy.

First, I consider that my statement is such an elementary truth, many times expressed by Lenin himself, that it is pointless to defend it. One can object to this idea only if one starts from the proposition that the struggle between the two systems in our country has ended with the establishment of such an equilibrium between them that between socialism and commodity economy there has taken place a peaceful delimitation of 'spheres of influence' in the economic field, and the two systems are developing without encroaching on each other's territory. How absurd this view is becomes clear at the first attempt one makes to think out what the relations are between the economy of the U.S.S.R. and world capitalism. Our internal capitalism, our simple commodity production which nourishes this capitalism, our trading capital—all these are cut off by our monopoly of foreign trade, our customs barrier, from world capitalist economy, that is, from the main forces of our enemy. Our internal capitalism with its base in simple commodity production, as a separate unit of world capitalist economy, has been cut off by us, surrounded, and subjected to the appropriate onslaught by the state economy in that artificial milieu which is guarded by the entire state and its armed might. But imagine for a moment this dam broken through by world capital. What would happen? What would happen would be the devouring of our state economy by the capitalist system, a devouring process in which the internal forces of our capitalism and all our commodity production would play an extremely active role in the burial of the first experiment in socialist industry. This possibility knocks at our door the more loudly the bigger is the pressure of the capitalist countries upon us on the economic front, and the more substantial is the place we begin to occupy in the calculations of the capitalist countries as a market for their goods, a source of raw materials, and a sphere of investment for exported capital.

But, on the other hand, the more successfully our state economy develops, the more vigorously it draws towards itself all the

country's private economy, and the more successfully the process goes forward of subordinating the pre-socialist economic forms to the socialist form, adapting them to it, and eventually absorbing them into it.

Naturally, for Russia this process will be incredibly prolonged and slow; it will take place at different rates at different periods, with breaks, with stoppages, with fresh advances. But however slow this process may be, especially before the proletarian revolution in the West comes to its aid, it goes on and it must go on, if our state economy in general is destined to survive. Equilibrium will be achieved only when private economy is brought up to the level of socialist economy, that is, when it is liquidated as private economy.

But Comrade Bukharin grasps at the word 'devouring' not in order to engage in a controversy about the essence of the matter—for how can there be any controversy about this?—but in order to ascribe to me a specific plan for this devouring process, namely, the development by the proletariat of 'its own' *farming*, that is, the development of state farms destined to 'devour' peasant economy under conditions of a general offensive by the proletariat on the countryside. The proletariat would act 'by analogy with the knights of primitive accumulation'. Having fastened upon me this scheme which has nothing in common with what I actually said, Comrade Bukharin declares decisively that 'all this is profoundly incorrect'.

What is profoundly incorrect is, first and foremost, what Comrade Bukharin here ascribes to me. In my article nowhere is a word said about proletarian farming in our country. I said nothing about it in relation to the problem of socializing peasant economy. I spoke about the proletariat's 'own farming' only in relation to the advanced industrial countries, when the proletariat comes to power in them and the present large-scale capitalist farms are transformed into socialist farms. Comrade Bukharin can find nothing of this sort about our country in my writings, though it is a necessary element in the scheme which he has attributed to me and on which he concentrates his fire. He has not hesitated in this case to engage in an operation of a kind which has long been known in polemical procedures of a certain kind and which consists in 'substitution'. I am, of course, as a friend, very sorry for Comrade Bukharin, because he would not have

resorted to this method except in extreme necessity. I think that at another time he would find it more interesting to have a discussion on the essence of the matter, if he were not bound by certain political tasks to enter into polemic against me. I said nothing about proletarian farming in our country because in the foreseeable period of time it will hardly play a big role. Only in the event of proletarian revolution in Europe can one expect that the Western proletariat will show great interest in our free land, which may markedly change the whole picture. In general I spoke, and in general it is now worth speaking, only of the basic form of socialized farming, that is, of producers' farming co-operatives of the peasantry.

What is the situation in this regard? In my article I wrote about it as follows:

Petty production develops in three departments. One department remains in the realm of petty production for a long time; another is organized co-operatively in a capitalist way; the third, avoiding this latter process, is united on the basis of 'new' co-operation, which is a special type of transition from petty production to socialism by way neither of capitalism nor of simple absorption of petty production by the state economy.

This new form of co-operation under the dictatorship of the proletariat, among the varieties of which are, of course, the peasant communes and *artels*, is still only about to develop. We cannot therefore analyse something which does not yet exist but is only about to arise. (pp. 100-1 [p. 132 of this translation].)

Comrade Bukharin also quotes this passage. How correctly he has understood me, or, to be more precise, how correctly he has set forth my views, may be seen from the conclusion he draws from the words quoted above. Comrade Bukharin writes: 'Comrade Preobrazhensky thinks that the laws of the evolution of agriculture under the rule of the proletariat have remained the same as they were under capitalism'. In other words, Comrade Bukharin asserts that in my article I see the main road to the socialization of peasant economy as lying through the devouring of this economy by the state economy. All this is completely untrue and completely in contradiction with what I wrote in the article. Nowhere did I speak about what road would be the main road or what lengths of time all the processes connected with the socialization of peasant economy would take. The essence

of my views on this question consists in the following: at the present time *nobody knows or can know* how, in concrete terms, peasant economy will be transformed into that type of producers' farming co-operation which will be the transitional stage to the socialization of farming. My unwillingness to describe in a scientific work something which does not yet exist in life will be understood by anybody who has learnt from Lenin (remember how Lenin defended our programme at the Eighth Party Congress), or has understood how science differs from belles-lettres. In my work *From NEP to Socialism* I willingly went into this question in detail, but I did it in the form of an hypothesis, because what Comrade Bukharin desires can be achieved only in the form of hypotheses and utopias. In that little book there can be found, on the question of the evolution of peasant farming, not merely what Comrade Bukharin today charges me with after a delay of two years, but something that goes even beyond that.

To Comrade Bukharin, however, all this seems unconvincing. How can this be? Preobrazhensky finds it possible to give an analysis of the law of accumulation in the eighth year of the proletarian revolution in our country and before the revolution in the West, and yet he refuses to say anything at all about co-operation in the peasant economy. 'He does not argue against Lenin, who set forth a definite large-scale plan, which was at the same time a theoretical forecast; he simply "declares" that it is not possible to give a theoretical analysis of what does not exist but merely ought to arise. In our opinion this is evading the issue.' In the first place, seven years is, generally speaking, a short period of time, but nevertheless it is sufficient for the undertaking of a theoretical analysis of what has happened during that time and what is now happening before our eyes. I remind Comrade Bukharin that he too, before the revolution in the West, and not seven years but only two years after the October revolution, undertook a description of the 'general theory of the transformation process' (*The Economics of the Transition Period*). Secondly, if I had been in disagreement with Lenin about the role of co-operation I should have written directly about it. The works of Lenin are not a Talmud, and Leninists should not be talmudists. Thirdly, in Lenin's article 'On Co-operation' there is not to be found what Comrade Bukharin requires of me, that is, there is nothing about the forms and roads of *producers'* co-operation in the countryside

there is only a proposition in principle about the role of co-operation in a peasant country. Nor could there be anything in Lenin's article about this, because he did not like utopias and himself never engaged in composing them. Fourthly, not only am I in agreement with Lenin's article 'On Co-operation', but in all my contributions during the discussion of 1923 I underlined the programmatic significance of the article, stating that the importance of this article was insufficiently understood by the party, and in nearly every resolution I put forward there was a point where I mentioned this article. The fact that Comrade Bukharin has been obliged to concoct a new allegation about my alleged disagreement with Lenin on this point is merely a proof of how hard it is for him to fulfil his political and polemical task without distorting the meaning of my words.

I now pass to the essence of this whole question. We shall now see that my conception of accumulation not only does not contradict Lenin's last article 'On Co-operation'; on the contrary, it has a direct internal link with it. What does Lenin actually say in this article? 'Every social system arises only with the financial assistance of a definite class. There is no need to mention the hundreds and hundreds of millions of roubles which the birth of "free" capitalism cost. Now we must realize, and apply in our practical work, the fact that the social system which we must now assist more than the usual is the co-operative system'. (Lenin, 'On Co-operation')¹ In the same article Lenin speaks of how we must give material support to co-operation. Comrade Bukharin also quotes this passage to show my divergence from Lenin, but he has wisely left out the phrase where mention is made of what the birth of free capitalism cost.

Yet the idea expressed in this phrase leads directly to the problem of accumulation. Indeed, if rural co-operation can progress rapidly only 'with the financial assistance of a definite class'—in the case in point, with the support of the ruling class—then the first question that arises here is: from where are the means to come? There are 22 million peasant households in the Soviet Union. A credit of 100 roubles for each household would mean nearly 2 milliards, a credit of 50 roubles would mean one milliard. Billiards of roubles would be needed for credit to the peasant economy to have a serious effect; for its effect to be merely

¹ [*Articles, 1923*: F.L.P.H. English edition, p. 18.]

noticeable, hundreds and hundreds of millions would be needed. Where is the proletarian state to get these resources from? Where is it to find them, when the restoration of the fixed capital of industry and expansion of the circulating capital merely to pre-war dimensions is going to require at least a milliard in the next few years? Yet resources for these purposes are of first-priority necessity. I am not saying that granting credits to the peasantry and helping forward the formation of peasant co-operatives is a hopeless prospect. I consider, on the contrary, that long-term credit will play a very big role in the development of rural co-operation in our country and that it will at the same time constitute a very important factor in co-ordinating industry with agriculture. But a plan for the development of long-term credit is not hopeless only in so far as the progress of primitive socialist accumulation is not hopeless. Essentially, until the period of primitive socialist accumulation is completed, while long-term credit or any other kind of credit to the peasantry may increase, it cannot assume a particularly large scale. Only when the period of primitive accumulation is completed and industry stands on a new technical foundation, only then can the flow of values from town to country by the channel of long-term credit become a broad river. The following example will show how matters actually stand in this respect. During the last half-year, industry invested in co-operation, through the process of trade on credit, only 100 million roubles. But even this sum turned out to be beyond its powers; it was necessary to beat a retreat and to enlarge the field for the entry of readily-available private capital. This fact cries loudly enough how poor our state economy is and what tremendous efforts it will have to make so far as accumulation is concerned.

Thus, that aid to co-operation of which Lenin spoke, and those other forms of financing the country from the town which he did not speak about, will be possible only on the basis of a great progress of accumulation in industry. Until this progress has been achieved, our aid will be on a small scale; often it is more likely to irritate the peasants by the contrast between its scantiness and the inevitably large expenditure on the state machine than to call forth a feeling of gratitude to the class which is granting the credit. And I think that it will not be difficult to explain all these ideas to the broad masses of the peasantry, who are not at all

incapable of grasping the elementary economic concepts relating to our economy as a whole.¹

This is the first point. Secondly, in the passage quoted from my article I spoke about producers' co-operatives for farming, whereas Lenin speaks in his article about co-operation in general and consumers' co-operation in particular. He nowhere says that a big section of the peasantry will be organized co-operatively in the sphere of production merely through exchange, that is, in the main, through consumers' co-operation.

We must advance towards co-operation on a production basis in our country both through exchange, including long-term credit, and through electrification, and also through developing the use of tractors in cultivation. What this producers' co-operative for farming, as yet unknown to us, will look like, by what main way or what combination of ways we shall reach it and achieve it, nobody knows at present, and for this reason Lenin says not a word about it in his article. But he does speak about financial support to the co-operatives by the ruling class, and thereby he brings us at once to the question of accumulation in the state economy. If Comrade Bukharin is convinced that the development of rural co-operation will proceed exclusively or mainly by way of exchange, which is, speaking generally, not out of the question and is even quite probable, then, first, he ought to prove this, and in particular he ought to prove it because he asserts that in my article there is a gap so far as this point is concerned. Let him show how co-operation will advance from the sphere of exchange to conquer that of production. If he writes on this subject more than I wrote on it in my little book *From NEP to Socialism* and in my articles on long-term credit, if he writes more than others have already written on this subject, we shall be grateful to him. But let him write, and not hide behind Lenin's article, which does not deal with this question in such concrete fashion.

But while Lenin says nothing in this article about how he conceives that the transformation of peasant economy will take place, and while he says nothing in this article about the role to be played by large-scale industry in carrying through this transformation,

¹ For this very reason we should not fritter away what we have when we advance credit to the rural population, but should concentrate our modest resources on giving credit to the peasant as a producer, not as a consumer. Primarily, this means the maximum credit for ploughs, tractors and other instruments of production, with privileges for collectives.

in other passages in his speeches and articles he does have something to say, more than once, about this question. Let us take just a few of these passages, so as not to prolong our exposition unduly. In his speech at the Eighth All-Russia Congress of Soviets Lenin said:

Anyone who has carefully observed life in the countryside as compared with life in the towns knows that we have not torn up the roots of capitalism and have not undermined the foundation, the basis of the internal enemy. The latter depends on small-scale production, and there is only one way of undermining it, namely, to place the economy of the country, including agriculture, on a new technical basis, the technical basis of modern large-scale production. And it is only in electricity that we have such a basis. (Volume XVII, p. 428.)¹

In his speech on the food tax made to the All-Russia Party Conference on 26 May 1921 Lenin said: "The real and only basis upon which we could consolidate our resources for the erection of socialist society is large-scale industry. . . . We can, must and will lay the basis of large-scale industry for our economy. Without it there can be no thought of a real socialist foundation for our economic life."² In his speech at the Third Congress of the Comintern, session of 5 July 1921 Lenin said, among other things: "We say: large-scale industry is the only means of saving the peasantry from want and starvation. Everyone agrees with this. But how can it be done? The restoration of industry on the old basis will require too much labour and time. We must give industry a more modern form, that is we must adopt electrification. The latter requires much less time."³

I think that Comrade Bukharin will not accuse Lenin of under-estimating the role of the peasantry and over-estimating that of State industry. I think he will not bring himself to accuse Lenin either of putting forward, in the first of the passages quoted, the prospect of 'devouring' peasant economy, when he speaks of electrifying not only industry but also agriculture. But Comrade Bukharin ought to think carefully about one thing, the idea of which automatically arises here. How does he propose to reconcile his objections to what I have written with the words I have quoted from Lenin? Here we approach the central point of our dispute. The fundamental question here stands thus: either Comrade

¹ [Lenin, *Selected Works*, 12-vol. edition, Vol. 8, p. 276.]

² [Ibid., Vol. 9, pp. 211, 212.]

³ [Ibid., Vol. 9, p. 240.]

Bukharin must show that Lenin's article 'On Co-operation' contradicts the quotations from Lenin given above, and then, should he prove successful in this undertaking, he would have grounds for talking not about my departure from Leninism, but about his own departure from everything that Lenin wrote and said before his article 'On Co-operation'; or he must show that this last article of Lenin's does not contradict but merely develops in a certain field the views which Lenin had earlier expounded about the prospect of our economic development, which he had expounded in a general way, not only in connection with the question of peasant co-operation but in connection with the general prospect of our socialist advance. In the latter case, however, Comrade Bukharin would have to reverse the entire argument which he has built up against my article. He must strike a definite balance in his understanding of Leninism, but he must not balance between two positions. The question is posed directly here: either—or.

For myself, I am convinced that Lenin's article on co-operation does not contradict all those views which he had expounded on the future of socialism in our country. The question of peasant co-operation, whatever forms it may assume, is only part of the general question of our socialist advance. Without a rapid development of the State economy there cannot be a sufficiently rapid development of peasant co-operation, unless this co-operation is to mean co-operation directed against us. And any rapid development of State industry is impossible without a sufficiently rapid accumulation in our State industry. To study the conditions for this accumulation, the progress which it is making, the obstacles which it is encountering, is to study one of the most fundamental questions of our country's socialist development. Comrade Bukharin's objections to my writings would have sense only on one condition: if he had decided to subject to revision all our party's ideas on the prospects of our economic development, together with that conception of the dictatorship of the proletariat and that basic line in our relations with the peasantry which we have maintained from the moment when we adopted a course towards socialist revolution and socialist reconstruction of society freed from the power of capital. But this revision would be a revision of Leninism not in the polemical but in the true sense of the word, and Comrade Bukharin's arguments would then be striking

at a target much more important than the modest one offered by my article.

As we have partly seen above and as we shall see now, Comrade Bukharin has gone too far in his polemic and also has not sufficiently weighed in a Leninist fashion his arguments on another question of very great importance, that of the worker-peasant bloc under the conditions of the dictatorship of the proletariat.

The Worker-Peasant Bloc

On the subject of the worker-peasant bloc Comrade Bukharin has a lot to say, all through his article. But everything he says misses the point, because these general formulations, in so far as he quotes Lenin correctly, are perfectly indisputable truths and nobody in our party disputes them. And in so far as he quotes my article incorrectly, these truths have nothing to do with what I have written and I have no need to be reminded of them. All these efforts of his to show that my theoretical construction contradicts Lenin's position on the worker-peasant bloc prove to be completely fruitless. He cannot quote *a single line* from my article to support his assertions, for the simple reason that this problem has not yet been broached in my work and will come up for examination only after I have made an analysis of the economics of industry and agriculture. I have already said that I still have before me the task of ascertaining, as far as possible in pure form, the tendencies of development of our commodity economy, and thereby of ascertaining the economic basis of that force (the petty producers) in alliance with which it is necessary to create a bloc. Comrade Bukharin's strongest argument against me is that I elucidate the problem of primitive socialist accumulation by comparing this process with facts from the epoch of primitive capitalist accumulation. Comrade Bukharin considers this analogy 'monstrous', because there could be no bloc between the knights of primitive accumulation and their victims.

In the first place, if I develop my views by comparing two systems of production and two epochs, this relates above all to the method of *exposition* and not to the essence of the whole argument. There could have been a different method of exposition, without comparisons and contrasts, and this would in no way have changed the concepts, but it would, in my opinion, have given a less graphic illustration of particular aspects of these concepts.

In the second place, since when has a scientific comparison, say, of man with the dog been humiliating for *homo sapiens*? I do not understand why we cannot, for example, make a scientific comparison between the proletarian state and the bourgeois state, why we cannot compare our justice with capitalist justice, and so on. Is the proletarian state rendered less proletarian by this comparison? Do we not see better and more distinctly the special features of the proletarian state when we compare it with the bourgeois state? All this is so obvious that it is tedious to repeat it instead of engaging in the study of fresh problems. But Comrade Bukharin has had bad luck with this point from another angle also. By an irony of fate it is precisely in Lenin's article on co-operation, and precisely in that phrase which Comrade Bukharin prudently omitted from his quotation, that Lenin, in no way embarrassed by the possibility of breaking up the worker-peasant bloc, speaks of what the birth of 'free' capitalism cost, that is, he compares the building of socialism—O horror!—with the knights of primitive accumulation. But if the 'right to make comparisons' has to be supported by logical proofs and in particular by quotations from Lenin, this only shows what a theoretical *cul-de-sac* we can run into if in the future every step in the work of scientific study of our economy has to negotiate such barricades as the article by Comrade Bukharin which we are discussing.

In my comparison I remained within the limits of an analysis of the economic systems solely from the standpoint of exchange between these systems. I did not touch upon inter-class relations in our economy precisely because politics is concentrated economics and it is necessary to provide first of all an analysis of the economic basis, with all its tendencies, taken in their *pure form*. I do not know whether perhaps Comrade Bukharin, having undertaken a similar study, would have chosen the other way, that is, whether he would have begun with politics, then gone on to economics, and so come back once again to politics. To me this way seems a long one, inevitably requiring repetitions, and unsuitable because causes would often be confused with effects. After all, the law of primitive socialist accumulation is a law rooted in the economics of the state economy. In order to get to politics, to proceed from the whole to the concentrate, it is necessary, as I have already said, to analyse the laws of commodity economy as they operate under our conditions, with their base

mainly in private economy, and also the influence of world capitalism upon us. When Comrade Bukharin reproaches me with eclecticism because I say little about politics, this only shows that in the interests of politics and political polemic he has not tried to understand either my method of investigation or my method of exposition.

But since Comrade Bukharin puts words into my mouth and is himself attracted by the method of analogy, I must here say a few words about the relations between the proletariat and the peasantry from the historico-sociological standpoint. Let us begin first of all with Comrade Bukharin's analogy. I will quote his own words: "Today the working class wields power in industry; the peasants rule *de facto* on the land and in agriculture; the peasant is a seller of agricultural produce and a buyer of industrial products; the worker is, as a rule, the reverse. Their interests directly clash along this line. The peasant, moreover, is a survival from olden times, though a "survival" which possesses tremendous relative weight'.

This is not at all like the relations between the knights of accumulation and the peasants. This is rather like the relations between the industrial bourgeoisie and the landlords at a certain period of their development, though, of course, even here the analogy is highly conditional and does not take us very far in any direction.

The bourgeoisie has power in the factories. The landlords have the land. The contradiction between their interests proceeds along the line of prices. Hence the struggle between them, which is sometimes, under certain conditions, quite sharp. But at the same time (we are talking about the period when the bourgeoisie is in power), there is a bloc, an alliance between the capitalist and the landlord against the working class. The bourgeoisie leads this bloc, the bourgeoisie leans upon the landlords and is supported by them.

What has been the evolution of these classes in recent times? It has consisted in this, that, through the process of circulation, through the banks, through the form of joint-stock companies and so on, these two classes, the industrial capitalists and the landlords, have to a considerable extent become transformed into a single class, the receivers of dividend. Dividend has become, so to speak a synthesis of former heterogeneous types of income; this at least

has been and still is the main tendency in the sphere of relations under review.

Something with a formal similarity to this will happen, if we look at the question on the broad, historical scale, with the worker-peasant bloc. As through the process of circulation, the peasant economy is drawn more and more into the socialist orbit, the frontiers between the classes will be obliterated and will disappear in classless society.

This is, of course, music of the future, We have other problems on today's agenda, but we need to have a prospect before us so as to know in what direction to 'drive' our line. 'And the prospect of future development from which Comrade Preobrazhensky proceeds is radically false.'

I have nothing against feeling one's way through the question on the plane of the analogy which Comrade Bukharin puts forward here. I merely object categorically once again to his analogy being counterposed to my own. I spoke about the fact that the socialist system must draw nourishment not only from its own sources but also from the sources of pre-socialist forms, just as early capitalism in the course of its development drew nourishment from the resources of pre-capitalist modes of production. On this fundamental point, as we have seen, Comrade Bukharin agreed with me, merely questioning my terminology. Yet my analogy goes no further than an analysis of the exchange between the systems and the balance of this exchange. But Comrade Bukharin raises a fresh question and puts forward an analogy on a quite different plane.

What is the weakness of Comrade Bukharin's analogy?

It is this, that, taking the 'broad historical scale' he has jumped over the special characteristics of the present period and he has done this not accidentally but just because his analogy, counterposed to mine, fails to serve his purpose if one does not compare *arbitrarily selected periods* from the sphere of relations under comparison but takes *analogous historical periods* in the development of the classes under comparison. We are in the stage of the first years of socialism. For comparison with these first years and decades one must take the corresponding period in the history of capitalism, that is, approximately, the period before the bourgeois revolutions or, at latest, the epoch of these revolutions. But this period was substantially different from the epoch when the serf-

owning landlord was transformed into a capitalist landowner, when not only capitalist industry but also capitalist agriculture fused with the banks. This epoch was preceded by a most intense class struggle between the urban bourgeoisie and the big landlords, a struggle in the course of which the big landlords formed a bloc with the clergy against the third estate. In that epoch the bourgeoisie did not 'lean upon the landlords', but was often turned out of power by the landlords in a series of counter-revolutions, or forced to make very serious compromises—compromises which held back bourgeois development, forcing it to take the Prussian path instead of the American (to use Lenin's terminology). This in the first place; and, secondly, the bloc between these classes came into being, in the last analysis, on the basis of none other than the large-scale capitalist mode of production, which transforms the serf-worked estate into a capitalist factory on the land, overgrown with sugar-refineries, distilleries, and breweries. The state economy of the proletariat and present-day peasant economy constitute historically *two different types of economy*, to unite which a very long historical period of struggle between these forms is needed, with the adaptation of the lower forms to the higher.

Comrade Bukharin, in order to get away with his 'highly conditional' comparison, has been obliged to jump over this period, whereas the whole task consists precisely in showing how we are to negotiate this period, and in the first place how we are to negotiate at least the first two decades of the existence of the Soviet power, when the class struggle has in general not ceased but only changed its form. When Comrade Bukharin says that these constructions are merely music of the future and that 'different problems are on today's agenda', he completely devalues his own construction so far as the present time is concerned. He acknowledges himself that he tells us nothing *about the tasks of the present day and the real relations of the present day*.

What is the essence of the worker-peasant bloc? It is that the proletariat, as the ruling class and therefore as the class which takes responsibility for the Soviet economy as a whole, by leading the peasantry in its struggle for the existence of the Soviet system, carries out its great historical mission of developing and consolidating a new type of economy, and fights against all vacillations, moods of disappointment, revolts and retreats on the part of its ally.

Against whom has this bloc been formed? Against internal forces, the landlords and capitalists, and, after their defeat, above all against world capital. Here the peasants inevitably waver, because a breakdown of our system, a breakdown of the monopoly of foreign trade and the customs barrier would offer them access to cheaper foreign goods and to some extent an increase in the prices they could get for their agricultural produce—that is, such a breakdown would offer them a betterment of their conditions, from the standpoint of the present day. But at the same time this breakdown would mean the victory of world capital over our Soviet system and as a result the payment to this capital of 18 milliard gold roubles (by one reckoning; 16 milliard by another) in settlement of pre-war and war debts and other claims. This is a sum which would suffice for the complete restoration of our industry and our agriculture well beyond the pre-war level. Such a turn of events would far outweigh those temporary advantages which the peasantry would obtain if it were to abandon its bloc with the proletariat against world capital in favour of a bloc with capital against the proletariat; not to mention the fact that this outcome would mean the turning of our country into a colony. If things come to the point of war with the capitalist countries, in order that we should win, it would of course be of first-class importance for the peasantry to be in the right mood. But the progress of industry is of no less importance, for without its successful development success on the war front would not be possible.

The worker-peasant bloc cannot be looked at merely as a means to compromise with the countryside. We need this compromise not for its own sake but so that the peasantry, in its vacillations towards the side of capital, shall not break down that structure of world-historical importance which the proletariat is erecting in the form of the state economy, with all its potentialities, including potentialities for the peasantry itself. From this standpoint the passage quoted below from our programme, and everything that Lenin said about the bloc of workers and peasants, in no way contradicts the point of view explained in my article, because this explanation is an analysis of the conditions of existence and development of that system for the sake of which we enter, and shall in the future enter, into the necessary compromises, in so far as these are necessary to maintain the proletarian dictatorship

and to prevent the wrecking of the developing state economy. This is what we read in this article of our programme.

In relation to the middle peasantry the policy of the All-Union Communist Party consists in gradually and in a planned way drawing it into the work of socialist construction. The Party sets itself the task of separating the middle peasants from the kulaks, attracting them to the side of the working class by an attentive attitude to their needs, combating their backwardness by measures of ideological influence, and not at all by measures of coercion, striving in every instance where their vital interests are involved to arrive at practical agreement with them, making concessions to them in deciding the ways in which socialist transformations are to be effected.

Our party has firmly mastered all this. It required and requires no revision, and so far as I know nobody has up to now proposed any revision of it. There is nobody in our party so lunatic as to be incapable of understanding that if the whole structure of the proletarian dictatorship were to be shaken to its very foundations as the result of a breach between the proletariat and the peasantry, the proletariat would not carry out its historical task in developing the state economy.

On the other hand, however, it would be a vulgarization of Leninism if in setting out the Leninist conception of the problem of the worker-peasant bloc we were to avoid dealing plainly with the other aspect of the question, namely, the *aims* of our concessions and the limits to them, even if only in generalized algebraic expression. Not for nothing did Lenin often speak on this subject. It is enough to quote these words of his from his speech at the All-Russia Party Conference on 26 May 1921:

The enemies of the Soviet government very often discuss the formula of the agreement between the working class and the peasantry, and very often they use it against us, because, taken by itself, this formula is absolutely indefinite. Agreement between the working class and the peasantry may be taken to mean anything. If we do not bear in mind that, from the point of view of the working class, an agreement can be permissible, correct and possible in principle only if it supports the dictatorship of the working class and is one of the measures intended for the purpose of abolishing classes, the formula of agreement between the working class and the peasantry of course remains a formula which all the enemies of the Soviet government, all the enemies of the dictatorship,

can utilise in expressing their views. (Lenin, Vol. XVIII, part 1, p. 257. See also p. 271.)¹

The dictatorship of the proletariat can be endangered not only by our failing to 'get along with' the peasants, through mistakes in our rural policy; it can be endangered also if our economic basis develops more slowly than the shoots of capitalism in our economy develop on the basis of commodity economy. And in this event, namely, given *a slow development of industry*, it will be difficult to 'get along with' the peasants. Hence, in the interests of the bloc itself and in order to ensure its firmness we must study everything that is happening in our state economy. We need to study most attentively the fundamental prerequisites for the development of our economy. Only if we devote this study to them shall we be in a position to know what the state of our production basis is at any moment, what is the state of that side of the production basis which leads the bloc, what the resources are for making concessions to the ally and what are the natural limits to these concessions.

The peculiarity of the position of the peasants under the dictatorship of the proletariat consists in the fact that this class is not the ruling class in the usual sense of this word, but it is not an oppressed class either, though it represents a lower form of production which must be overcome and transformed under the influence of the historically higher form. On the contrary, we see the following interesting phenomenon in our system. A section of the ruling class, that is, a section of the workers, is most closely connected with the peasants on an economic basis, and thus within the midst of the ruling class itself the peasantry has its own natural representatives. The growth of state industry, the fresh streams of labour-power from the countryside which will flow into state industry, will ensure this representation for many years to come, a representation which will perhaps be not less important than the rights which are secured to the peasantry under our Soviet constitution. The proletariat and the peasantry in our Soviet society are intercommunicating vessels. When there is disturbance in the peasant sea, a movement of the waters is always also observed among the proletariat also. An analysis of the proletarian dictatorship in a peasant country from this point of view would be infinitely more fruitful than a conditional comparison between the peasant

¹ [Lenin, *Selected Works*, 12-vol. edition, Vol. 9, pp. 207-8.]

and the landlord class, between the proletariat and the capitalists, a comparison which violates all historical perspective.

Finally, an analysis from the point of view mentioned would be even more important for this reason. Our present-day peasant economy is very little different in kind from the pre-war peasant economy; the internal changes in it have been as yet, alas, very slight. Yet our economy and the direction of its development, and also the relations between the peasantry and the ruling class have fundamentally changed in comparison with the pre-revolutionary period. Consequently, the transforming centre is the town, the state economy; and so the new type of connection between the classes, the new foundation of Soviet society, as a social formation never before seen in history, has to be studied from the standpoint of the transforming centre, which is what I have done in my book.

On Economic Policy

Here, however tedious it may be, we must first of all eliminate the 'substitutions' which Comrade Bukharin has made in commenting on my text. In my article I wrote:

. . . The idea that socialist economy can develop on its own, without touching the resources of petty-bourgeois (including peasant) economy, is undoubtedly a reactionary petty-bourgeois utopia. The task of the socialist state consists here not in taking from the petty-bourgeois producers less than capitalism took, but in taking more *from the still larger income* which will be ensured to the petty producer by the rationalization of everything, including the country's petty production.¹

We have seen above that Comrade Bukharin agreed that the state economy cannot but utilize the surplus resources of petty production. We have taken these resources up to now, we continue to take them, and inevitably we shall go on taking them. How astonished we are when reference to this completely indubitable fact is seen by Comrade Bukharin as an arrow shot at the 'petty-bourgeois policy of our party'. It is astonishing that Comrade Bukharin has not noticed this contradiction within his own article. Generally speaking, all that I have done is to describe what has happened up to now in our country. If Comrade Bukharin will take a look at our state budgets for the last few years and will pay attention to the graph showing the estimated allocations for industry, he will see that our actual policy has been just what I

¹ [Cf. p. 89 of this translation.]

describe, and what it will have to be in the future, in the period of primitive socialist accumulation. This policy has been put into effect in spite of the pressure of the petty-bourgeois mass in our country. In the future too, as Comrade Bukharin agrees, we shall be obliged to take resources from private economy for the restoration and development of industry, for its technical re-equipment. If I speak of petty-bourgeois utopias this is, first, because *there are no peasant countries without petty-bourgeois utopias*, and, secondly, because we may in the future encounter an attempt to revise economic policy on this point. This must be foreseen and combated. The best means of combating attempts to revise our economic policy in this direction is to study the conditions of existence of the state economy and the prerequisites for its development.

Comrade Bukharin formulated my point of view with regard to prices in two words: 'raise them'. To put it mildly, this is a scandalous falsehood. I nowhere in my work say anything about raising prices. I specially pointed out that a policy of accumulation is not only possible for us but also will in fact take place with falling or stable prices. What Comrade Bukharin says is a distortion of the letter and the meaning alike of my words. My real point of view on this question is as follows. A correct price policy for the products of state industry must serve these three aims: accumulation for expanded reproduction and for the technical re-equipment of industry; raising wages; and reducing prices. Can these three aims be achieved together, or is there a contradiction here? They can be achieved together. There would be a contradiction only in the event that the whole economy were in a stable condition, and if the amount of income in both the state and the peasant economy were in a stable condition. Then accumulation could be effected only through reducing wages or raising prices; reducing prices would be possible only at the expense of accumulation and through reducing wages, and so on. But with the growth in the productivity of labour this three-cornered problem can be solved all at once: it is this that Comrade Bukharin teaches me—a thing which I knew and expressed before he did. With the accuracy characteristic of him in this article, he says that I concern myself only with the sharing-out of a stable income. It is really unnecessary to point out his error. But it may be useful to Comrade Bukharin, because if he

understands this point, he can grasp the rest of my exposition too.

And so, with the growth of the productivity of labour the three-cornered problem can be solved. This is also, in essence, the formula of the bloc of workers and peasants on the most important point in the economic field. I will quote a numerical example. If, say, in a certain year our industry, thanks to a big effort by the enterprises, an improvement in technique, more productive labour by the workers, better organization of the whole process and more planning in the whole state economy, produces a unit product 10 per cent. cheaper, and in money terms, in relation to total production, gives, say, a surplus of 150 millions, then the correct price policy will consist in distributing this 'saving' three ways: to accumulation, to price-reductions and to wage-increases. This distribution is itself not only a function of the increase in production and in the productivity of labour, but is its most necessary prerequisite. Only with this system of distribution will it be possible not merely to stimulate the sale of the increasing mass of products and gradually to satisfy the needs of the countryside (which is only one of the conditions of the task, and not the whole of the task), but also to solve two other conditions, without which progress is impossible. *The financing of the growing productivity of labour, that is, the raising of wages, is a necessary condition for ensuring that stabilization does not set in in this field. Finally, only if accumulation is ensured will further development of production be possible.* Development presupposes the existence of fresh capital in various proportions, *in natura*, deposited in all the branches of production, as the most necessary condition for expanded reproduction at the next stage. Just as, without surplus value exceeding in amount the consumption of the capitalist class and the groups it maintains, it is not possible to have capitalist expanded reproduction, so also without a definite quantity of surplus product the further development of state industry is inconceivable. The ideal price policy for us is the policy when the price-level, despite reductions in prices on the basis of progress in production, takes into account not merely reproduction but expanded reproduction plus electrification, and all this is ensured automatically from one cycle to the next. If such a policy is not possible for some branches then it is all the more necessary to rely in this process on a flow of resources from spheres which lie outside the limits of the state economy. To what extent it is at present possible to approximate

to this ideal is quite another question. Here we must inevitably take into account all the conditions for solving the problem: the comparatively *slow* growth of accumulation in peasant economy, the comparatively slow growth of this economy's buying power, the problem of proportionality in the development of industry and agriculture, the size of the harvest in a given year, the amount of exports possible, prices on the world grain market, prices of all objects exported, and so on.

In carrying out this policy of reducing prices we encounter one important obstacle. Since retail trade is to a large extent in the hands of private capital, in branches where production lags behind demand our policy of price-reduction is paralysed, where the consumer's interests are concerned, by the difficulty that when we reduce prices under conditions of goods-famine we inevitably bring about accumulation in the sphere of private capital.¹ A big share of this reduction falls into its hands, and we achieve only in part an improvement in the position of the consumer, especially the rural consumer. If reducing prices interrupts the process of accumulation, that is, the possibility of expanded reproduction in the given branch, then the road is closed to our achieving a real reduction in the next phase. For expansion demands additional capital. If this additional capital is not obtained in the preceding cycle, then in the new year we shall have the same amount of production as in the previous year. There will be a 'scissors' between wholesale and retail prices, and the consumer will as before be unable to secure the benefit of the new price-reduction policy. As a result we shall have stagnation in production and high

¹ I will quote only one very expressive example of price-reduction when demand exceeds supply. The entire product of the textile industry for 1923-4 was valued at 570 million roubles. In a single subsequent reduction of prices this industry had to sacrifice more than 40 million roubles. What the middle and poor peasants got from this reduction can be seen from the following figures. Out of the entire product of the textile industry there went to the rural population last year 35 per cent. of cotton fabrics, 27.6 per cent. of woollen fabrics and 9.7 per cent. of linen fabrics. And of all the rural consumption of these manufactures the poor and middle peasants accounted for about 60 per cent. At the same time last year the addition made to constitute the retail price of cotton prints, as compared with the wholesale price, amounted to 31 per cent. on 1 April 1924, 38.5 per cent. on 1 August, 44.7 per cent. on 1 December—that is, the addition increased, in spite of the reduction in wholesale prices. Consequently, private capital in petty trade grabbed an enormous share of the price-reduction. This is the result of a policy of price-reduction at all costs while there is insufficient internal production, that is, while there is insufficient accumulation for expanded reproduction.

prices in retail trade. In this case it is, of course, to our advantage either not to reduce prices until we have achieved expanded reproduction, or to resort to goods intervention, if this can, on the one hand, do away with the temporary goods famine, and on the other hand, give us additional resources for expanded reproduction in the given branch in the following season. Hence it is clear that the bald slogan of reducing prices, not taking other tasks into account, can in certain cases halt the development of some branches of our industry without bringing any benefit to the broad masses of consumers, especially the rural ones. We must adopt the standpoint not of consumption but of production, and make production our starting-point. After all, we are not yet living in socialist society with its production for the consumer, we are living in the period of primitive socialist accumulation, under the iron heel of the law of this accumulation. Of course, the position of the productionist, including that of the conscious worker-productionist, is not so popular as the policy of bald price-reduction at all costs, it is not so popular as the consumer's approach to our economic problems. But we must remember one thing: the policy of price-reduction will become a mere phrase where the poorer consumer is concerned except in so far as it results in accumulation, in expanded reproduction in the subsequent phase. We must proceed not from price-reduction to accumulation but from accumulation to price-reduction. If it was easy for us to get out of the crisis at the end of 1923 by sharply reducing prices, and this reduction had a positive effect on production itself, this was only because in the previous cycle we had accumulated sufficient to cover this operation—and perhaps had even accumulated more than was necessary. Under more or less normal conditions of the development of our industry, in the future such leaps will be both materially impossible for us and inexpedient for the economy as a whole.

It is necessary to say further here that all attempts at radically solving one of the most difficult problems of our life, the problem of unemployment, depend entirely on our solving the problem of accumulation. Hundreds of millions of values in the form of the unused labour of unemployed workers, in the form of idle factories with unused equipment, uneconomical use of capital by the factories which are working—these hundreds of millions are perishing and people are starving only because we have as yet

hardly got down to the job of accumulation and have made little progress in this sphere.¹

Moreover, the question of unemployment is not only a question for the workers but one for the peasants too. A special piece of research might show how much benefit would accrue to the countryside of today, with its huge reservoir of unused labour power, if we could manage to establish the pre-war relations between industry and agriculture and thereby give employment to hundreds of thousands of new workers in production and even greater masses of peasants in various kinds of seasonal work.

The second question to which we must pay attention here is that of taxing the private economy in the interests of developing industry. I quoted above a passage from my article where I said that our task in this sphere does not consist in taking less than capitalism took but in taking more from an income which has grown still more. Comrade Bukharin calls this idea 'sensible' (only think, what an honour this is), but he does not understand how this idea has got into that graveyard of mistakes which he has made out of my views in order to facilitate his polemical tasks. Yet there is nothing in my work which contradicts this idea. If, say, our peasant economy (thanks to intensified methods over a fairly long period of time, of course) yields an income three times as big as before the war, which is by no means a utopian prospect (our agronomists consider possible an even bigger increase) then why should we not take one-and-a-half times as much from it as capitalism took? Or, to take an arbitrary numerical example: if capitalism took, say, 20 roubles from 100 roubles of peasant income, why cannot the socialist state take 30 roubles from an income of 300 roubles? All the more since, through the channels

¹ How difficult it will be for us to carry out this accumulation process is to be seen even in the theoretical sphere. Hardly has theoretical illumination of this process begun than the alarm has been sounded! Yet without successful accumulation in industry the problem of further reducing prices cannot be solved. This road is a hard one but it is the only one possible for us. If we were to refuse to take this road or were to slow down our advance along it, then there would remain only one single way to continue reducing prices at all costs: to abolish the monopoly of foreign trade and establish a link between the peasant economy and foreign industry, that is, to take the road of abolishing state industry. Since to do this is out of the question for us, there remains only the way of accumulation. This means that for the sake of reducing prices, for the sake of strengthening the worker-peasant bloc, for the sake of consolidating our dictatorship, for the sake of abolishing unemployment, for the sake of increasing wages, we need as successful an accumulation as possible.

of long-term credit, equally beneficial for the success of accumulation in industry and in agriculture, we shall return part of these resources to the peasant economy in the form of capital. All this evokes no objection from Comrade Bukharin. No, indeed, he enlarges this prospect, he even puts forward a formula which differs little from my own and proclaims: 'Accumulation in socialist industry, with a greater relative weight for peasant economy, is a function of accumulation in the peasant economy.' Comrade Bukharin merely fails to understand how my thesis fits in with the prospect of the 'devouring' of peasant economy by the state, how it fits in with the programme of colonial robbery of the countryside, ignoring the capacity of the peasant market, and so on. But if one realizes that the 'devouring' and the colonial policy and all the rest of it are merely the product of my opponent's 'negative expanded reproduction' in the field of polemic, the contradiction 'is eliminated' at once—much more easily than is necessary according to Hegel.

It is the same with Comrade Bukharin's idea that I propose to kill the goose that lays the golden eggs for our state industry, that is, that I propose to hinder the development of peasant economy: this is in crying contradiction with the actual text of my work. And it is necessary to say further that my article gives no numerical analysis of the economy, no estimate of the relative weight of these different sections in numerical terms. Comrade Bukharin was too eager to rush into battle without waiting for me to set forth my views on the economics of the present-day peasant economy of the Soviet Union. And when Comrade Bukharin instructs me that accumulation in peasant economy is a function of socialist accumulation, he not only presents me with my own thesis merely expressed in different words, but he presents it to me in a by no means improved form. In fact, speaking of the dependence of the state economy on the amount of exchange between this economy and private economy, I write:

In this [that is, in the matter of the connexion through exchange with private economy, E.P.], proportionality in the development of state industry depends on the proportionality of development in private economy—which happens spontaneously. Here, state industry is bound fast to the wheel of private economy. Yet its work to meet market demand is the necessary prerequisite for socialist accumulation itself. *For if accumulation at the expense of private economy entails*

a balance of values exchanged in favour of the state economy, this balance will be the greater in proportion as, all other things being equal, the numerical amount exchanged is greater. (pp. 112-13. [p. 144 of this translation.]

In other words, the amount of accumulation is connected with the amount of exchange. An increase in exchange on the part of the countryside is possible only on the basis of an increase in production for the market by the peasant economy, and an increase in production for the market is a synonym for an advance by the economy and an increase in its remunerativeness; hence the dependence between the amount of exchange and accumulation. How does all this resemble what Comrade Bukharin writes about me?

But Comrade Bukharin's exposition is not an improvement on mine because it does not give expression to the tremendous importance of the dialectical contradiction involved in the process described. This contradiction consists in the following. The faster the peasant economy advances and its production for the market increases, the bigger is the basis for socialist accumulation in this sector. That is one aspect. But the faster this growth takes place, the bigger is the basis for the development of the fundamental laws of commodity economy, the deeper and wider are the waves of the elemental fluctuations of the market, the bigger is the basis for the formation thereon of capitalist relations, with all the economic and political consequences that involves for the socialist system. The conditions for growth at both poles are at the same time conditions for the growth of contradictions between the two systems, because the possibilities of a more profound regulation of the economy on the part of the state and the forces which oppose this regulation and disrupt it both increase at the same time. This idea is, speaking generally, not a new one. It has been expressed more than once. In another form it was expressed by Comrade Lenin. But in any event it is important for us to trace every factor in the development of these contradictions and to be constantly familiar with the arithmetical expressions of them, whether they are growing or being smoothed out. Enlarging at all costs his task of 'smashing Preobrazhensky', Comrade Bukharin has earnestly applied himself to one aspect of the problem, while the second aspect has escaped his field of vision.

As regards the capacity of the internal peasant market and

the evaluation of its role for our industry, here least of all have I reason to listen to Comrade Bukharin's admonitions. I brought this problem to the fore a year and a half ago in my lecture and pamphlet *On Economic Crises Under NEP*—on account of which, by the irony of fate, I was then reproached by Comrade Larin with Narodism. This problem will also be allotted plenty of space in my book, one chapter from which Comrade Bukharin has criticized. Comrade Bukharin says that in my work there is only one note on this subject. I agree that not much is said about it. That is for a quite understandable reason. If one could write in one chapter about everything at once then there would be no need for a book. A great deal is said little about in the article! For example, nothing is said about the capacity of our urban market for peasant economy, something which is also of very great importance for our economy, and which underlines *precisely for the peasantry* the great importance of rapid accumulation, that is, expanded reproduction in industry. The crisis in cattle-raising this year is a graphic illustration of this fact.

Comrade Bukharin does not agree with my statement about the need for us to have falling or stable prices in the next few years; he considers the slogan of falling prices the only correct one. On this point I must make the following observation. First, we have some branches of industry where there is no point in specially troubling ourselves about reducing prices: such, say, as all the branches connected with bourgeois demand, for example, the production of luxury articles—spirituous drinks, and so on. We must endeavour to reduce the cost of production here too, and transfer the profit from these branches to other branches which are suffering from lack of capital, in so far as this task is not accomplished by the increase in the excise. Then, I spoke in my article not only about the current year and the next. When the problem of restoring the fixed capital of industry is put to us with even greater sharpness than now, and when the 'scissors' between prices for industrial goods and for agricultural produce coincide with world relations or our own pre-war proportions, then our price policy will have to alternate with long periods of stable prices, and when raw material becomes more expensive, especially raw material from abroad (cotton, rubber, soft wool, thick hides, and so on), which is something beyond our control, then it is not out of the question that we shall have to raise our

prices. For this reason I carefully avoided speaking *only* of reducing prices.

Comrade Bukharin comes down very hard on my note about the unprofitability for us of 'philanthropic' trade. What is involved here?

I spoke in the passage in question about the inexpediency from the standpoint of accumulation of sinking part of the state's capital in trade which does not bring us any profit and does not solve other more important problems, that is, above all, the problems of further extension of production. With our extreme poverty in capital the state has at every moment to decide in which direction it is urgently necessary and advantageous for us to direct our resources. Today this question faces us in all its sharpness. Is it advantageous to us to sink our resources in trade when industry is suffering from an acute shortage of these resources? Of course we cannot avoid investing part of the state's capital in state trade and in the co-operatives. Our resources invested in these spheres, that is, in the sphere of exchange, will undoubtedly increase. But it is quite inexpedient for us at this moment to invest these resources in trade which brings in no accumulation and which solves only the task of reducing the exploitation of the petty producer by private capital. The latter task, generally speaking, is also an important one, but here we need to shift the centre of gravity of our policy to drawing the capital of the petty producers themselves into this kind of trade, developing co-operatives for selling purposes which use the peasants' own resources, and not tying up in this trade part of our state capital and thus depriving production of it. We are still not rich enough to go over on a mass scale to mastering this part of exchange. This is all that I had in mind to say here. On the basis of the experience we have already had, the correctness of this idea has been fully confirmed by the experience of last year.

On the Driving Forces of the Development of Our Economy

Comrade Bukharin, in the paragraph of his article headed: 'Monopolist parasitism or socialist advance', expounds a number of quite correct ideas about the fact that we have to urge our industry forward in conditions of state monopoly in large-scale production and transport. All that I fail to understand is why these ideas, which I myself expressed before Comrade Bukharin's

article appeared (as he knows), have to appear as objections to my point of view. The driving force of capitalist development was, and to some extent still is, competition: capitalist enterprises under the threat of bankruptcy have to fight for their existence by raising the level of technique, increasing the productivity of labour, and reducing prices. The stimulus for the capitalists is the urge to make profit. But the state economy of the proletariat is developing other stimuli and regulators of production, characteristic of this economic system itself. The fundamental lever of pressure here is the consumers' pressure of the working class on its state and its state machinery. From this point of view not only are the influence of the non-party workers on the trade unions, and the influence of the trade unions on the economic organs and the state, a most necessary part of this mechanism of the new economics, but the same role is played in part also by the spontaneous pressure of the workers, including the so-called 'go-slows'. Here our system is, on the one hand, consciously organized, while on the other it is spontaneously seeking within itself the regulators which shall replace the stimulus of capitalist competition, fulfilling the same functions, though by other methods. These methods directly depend on the fact that our state is a workers' state and our industry is state industry and that this state industry is fused with the workers' state.

The consumers' pressure of the peasantry is not an internal pressure within the socialist form but comes from outside; yet in its objective results it is similar to the pressure of the working class. The difference between it and the workers' pressure is as follows. Just as competition between capitalist enterprises does not affect the foundations of the existence of the capitalist system and at most leads only to the bankrupting and ruin of certain weak enterprises, so the workers' pressure on their own state cannot disturb the foundations of this state, but can only speed up the rate of development of industry and improve the methods and quality of work of its organs. On the contrary, however, the peasants' pressure, by its social, class content, is pressure from outside, it can exceed the limits of pressure by one ally upon another, and from this aspect it is different in principle from the workers' pressure. As a stimulus, however, to increasing production and to the rationalization of production, this pressure, in so far

as it does not shake the Soviet system, can have the same results as the consumers' pressure of the proletariat.

It is precisely the existence of these levers in our economic system, with the pressure of foreign capital from outside, that guarantees state economy from degenerating as it rests on the laurels of monopoly and which ever further and more strongly will urge the whole system into more rapid advance. I did not touch on this question in my article because it is to be dealt with in another chapter of the book, where I shall discuss the organizational structure of our economy, the accumulation of socialist culture and the training of a new type of worker in the state economy.

Since nothing Comrade Bukharin writes in this paragraph in any way clashes with what I have written, in order to find something to quarrel with me about Comrade Bukharin ascribes to me the defence of a policy of increasing prices, which is to be 'another form of taxation'. Yes, I stand for reducing to the minimum direct taxes on the rural population: let us say, to a single income tax, everything else being obtained through the excise and an appropriate price policy.¹ (By the way, this was Vladimir Ilyich's idea too, and I heard him speak of it often in the period of NEP) But if we take this road—and we have already to some extent taken it—this does not mean at all that we can attain our aim only through raising prices. I have already spoken above about the fact that this is not only not obligatory in present circumstances but that, on the contrary, we can put this policy into effect with falling or stable prices.

On the Law of Socialist Accumulation

Comrade Bukharin takes up a sceptical attitude to the fundamental law of primitive socialist accumulation which I have formulated, not only from the political standpoint but also, apparently, from that of scientific theory. But what has Comrade Bukharin put forward in opposition to this law? I must admit that I studied with the greatest interest and attention this particular part of Comrade Bukharin's article, which really does relate to me. On the basis of past experience I expected, not without some grounds,

¹ I spoke about this in January 1924 at the Party Conference, and for it I was accused by Comrade Larin, with his usual freedom, of a petty-bourgeois deviation.

that Comrade Bukharin would here either give us fresh material for a different presentation of the question itself or else would counterpose to mine a construction of his own, as he has usually done in such cases. But I was to be disappointed. The whole centre of gravity of the article proved to be in the political sphere, that is, in the sphere with which I am not directly concerned and where my opponent, as is known, is no great specialist.

Only at the end of his article does Comrade Bukharin recall what he should have begun with and to what the greater part of his answer should have been devoted: what has he in fact brought forward to refute me?

At the basis of my law, in Comrade Bukharin's opinion, lies a simple truism. In a country under proletarian dictatorship where industry is more developed, surplus product will be obtained more from industry than from petty producers. Where industry is weaker and petty production very strong the reverse will be the case. I do not object to this being called a truism, just as Comrade Bukharin will probably not object to my saying that the starting-point of any law is some truism or axiom. Everything here depends on the further chain of deductions. Comrade Bukharin does not consider the truism to be linked logically with the statement that the greater the relative weight, in a socialist state, of petty production as compared with the state economy, the more non-equivalent will be the commodity exchange between these systems. I spoke, in my formulation of the law, about the total balance of exchange between the two economic forms and not only about the balance of commodity exchange between them. Comrade Bukharin's objection on this point has no bearing on the matter at all. After all, if you consider that, say, in Russia the non-equivalence of exchange under conditions of free competition with the capitalist countries would be less than it is inside the advanced capitalist countries, this does not tell you anything as to whether, with the same technique but without free competition and with socialist monopoly, all this would not have been changed in the period of primitive socialist accumulation. After all, beginning with a truism, we now come up against the fact that in the period of primitive socialist accumulation and during the whole period of the existence of *primitive* socialist accumulation the prices of industrial goods must not only include all the elements of reproduction but must also ensure (if this is not

ensured by means of taxation) the transition of industry to a new technical basis. It is quite a different question how long this entire process will be drawn out, how slowly or how quickly this accumulation will be accomplished. Of course, given our general poverty and the low level of our agriculture, this entire process, if it be not helped by revolution in Europe, will take place very slowly. But this process is an inevitable process, it is a question of life and death for the Soviet economic system. The law of primitive socialist accumulation is the law of the struggle for the existence of the state economy. Non-equivalent exchange, which it requires in the sphere of commodity exchange as well, is not only a reproduction of the proportion in which this non-equivalence exists in capitalist countries, it demands a certain excess over and above that. The question of whether, say, in a socialist Germany exchange between the town and the peasant countryside will be more equivalent than it is in the Soviet Union is at present an academic one, because, on the one hand, nobody can calculate exactly what percentage of the prices of the products of our internal industrial production goes to cover technical re-equipment of the economy; and, on the other, nobody can calculate what will be the relative weight of labour-consuming crops in the agriculture of socialist Germany. If when formulating the law I referred to reducing the non-equivalence of exchange with the former colonies, I had in mind the aspect of non-equivalence which is specifically connected with capitalist and imperialist exploitation and policy. Comrade Bukharin writes that the question of non-equivalent exchange is not so simple as I imagine. I do not think at all that this question is a simple one or that it does not require the most circumstantial theoretical study. I understand very well the difference on this point between countries which possess, alongside small peasant farming, also large-scale capitalist farms (which will become socialist farms under the dictatorship of the proletariat), and countries which have large-scale production in industry but in agriculture have only, or almost only, petty production, and where the struggle between large-scale and petty production takes the form of a struggle between industry and agriculture, town and country.

But from Comrade Bukharin's objection I do not see that he has in any way complicated the problem by comparison with

what I said about this subject in my article. With all my goodwill I can, unfortunately, get little from Comrade Bukharin's objection on this point.

It is the same with regard to the central point of my article, which deals with the struggle between the law of value and the law of socialist accumulation: Comrade Bukharin restricts himself to a single observation, in which also he tries to show that 'the matter is much more complicated than it appears in Comrade Preobrazhensky's work'. I will here quote the whole of this remark of Comrade Bukharin's.

We cannot here enter into a detailed analysis of one general theoretical proposition of Comrade Preobrazhensky's, in which he (Preobrazhensky) depicts the process of socialist accumulation as a struggle between two laws: the law of socialist accumulation and the law of value. In Comrade Preobrazhensky's opinion the law of socialist accumulation partly paralyses, partly 'abolishes' the law of value, which in the given period passes completely into the background.

Here we will observe only the following: the additional 'profit' of highly complex economic organisms is obtained: (1) from the fact that the individual cost of production is lower than the social cost, that is, on the basis of the law of value; (2) from the fact of monopoly. If we consider a large period of time it is not hard to see that the first law expresses and rests upon the *development* of the productive forces, while the second is more or less connected with conservative tendencies, in the sense in which we spoke in the text. On the other hand, the law of value, which in an unorganized society is also the law of the distribution of social labour, is a definite frontier against monopoly. For there is an objective frontier in the distribution of productive forces; if this frontier is crossed, an acute crisis is inevitable. Finally, universal 'monopoly', that is, universal organization of society, transforms the spontaneous law of value into the planned, conscious 'law' of economic policy, the law of rational distribution of productive forces. Thus, the matter is much more complicated than it appears in Comrade Preobrazhensky's work.

I think that neither I nor Comrade Bukharin conceives the law of primitive socialist accumulation in an oversimplified way. The struggle here takes place between the law of value and the planning principle. But at the given stage, that is, at the initial stage of struggle between the planning principle and the market, under conditions of poverty in capital and of technical and economic weakness of the state economy, *this struggle inevitably assumes the*

form of struggle between the law of primitive socialist accumulation and the law of value. The law of this accumulation is only the first stage, the childhood of the planning principle. Regulation develops not for the sake of regulation but subordinated to the tasks of primitive accumulation, just as, in the period of War Communism, attempts to construct a planned economy were subordinated not to the abstract aim of a socialist plan but to the task of defending the country in the civil war. If we abstract ourselves from the dialectics of this entire process, if we squeeze the whole field being studied into rectangles of abstraction and thereby hold up the course of history, we shall, of course, struggle in the toils of insoluble contradictions: between monopoly on the one hand and the law of value on the other; between capital in the old sense of the word and state capital in the new sense of the word. But there is a way out here. It consists in the fact that real life develops according to Hegel, Marx, and Lenin, that is, it develops dialectically, and thereby it cuts through the contradictions created by the schematism of our thought and the immobility of terminology devised for the analysing of one system and often refusing to serve when an historical transition takes place from one system to another.

From this point of view Comrade Bukharin's observations to the effect that one must not identify product with capital are quite correct from the standpoint of terminological statistics, but are incorrect from the standpoint of the dialectical process. I did not make a terminological slip of the pen here, but proceeded consciously from the fact that the transformation of commodity into product and the replacement of private capital in the old sense by state capital takes place after the revolution on the basis of the gradual growth of one system at the expense of another. If Comrade Bukharin is going to propose a suitable way out of this terminological difficulty, I shall be the first to welcome it. But hitherto he has not done this. On the contrary, he devotes an entire column to correcting my inadvertence—the use in two or three places, for the sake of brevity, of the term 'socialist accumulation' in place of 'primitive socialist accumulation'—I hereby acknowledge my inadvertence and I will correct it at the first opportunity. However, I shall expect that Comrade Bukharin will not restrict himself in future to cannon-shots at terminological sparrows and slips of the pen,

but will say something also about the essence of the question.¹

I must protest decidedly against Comrade Bukharin's concluding lines, when he writes:

The reader who is used to dealing with the analysis of various ideological nuances will at once recognise here the workshop ideology which is 'not concerned' with other classes, which does not trouble itself about the basic problem of proletarian politics, the problem of the worker-peasant bloc and the proletarian hegemony in this bloc. One more short step in the same direction and we have before us in complete form the semi-Menshevik ideology of finished trade unionists of the Russian variety: to hell with the peasants, more concessions to foreign capital, not a kopeck for co-operative nonsense and rural affairs, intensified pressure on the peasants for the greater glory of the 'proletariat', and so on. *This* is what this ideology grows into.

To what extent these accusation are, to put it mildly, false, artificial, and obviously fabricated is clear from one specific point in them, namely, the reference to 'more concessions to foreign capital'. On the question of concessions I wrote the following in my article:

The fundamentally negative side of a concession is that here the state economy in the period of primitive socialist accumulation, that is, in its period of maximum weakness, comes into direct contact with foreign capital, which marches along armed in its panoply of technique, its surpluses of fixed and circulating capital, and possessing great reserves of capital in its bourgeois rear. . . . The result of this may be such that a too large dose of concessions taken into the organism of the state economy may begin to disintegrate it, just as in its time capitalism disintegrated the weaker natural economy. . . .

At all events, caution in the field of concessions policy is an expression of the same economic necessity which obliges the economy of the U.S.S.R. to maintain by every means the monopoly of foreign trade and the system of very strict protectionism. (pp. 104-5. [pp. 135-6 of this translation.])

From my entire article and in particular from this quotation it is obvious that a cautious attitude to concessions is connected by the closest internal link with my entire set of ideas. If Comrade Bukharin, without any proof and in conflict with the letter and meaning of the article, asserts the contrary, well, all this has also its own inner logic—the logic of political polemic. When I, along

¹ I agree that I used the term 'fixed capital' where I ought to have said 'functioning capital'.

with other comrades, was prosecuted in one of the trials for belonging to the Party, in 1910, and I pointed out to our counsel (the well-known Kerensky) that his plan for the defence included a variant which departed from the truth even when it would be more advantageous for defence counsel simply to tell the truth, he answered me: 'We need to construct a variant of the defence which will be more easily grasped and which the judges will accept more readily, and not to complicate the structure of our defence with observations about what actually happened in particular cases'.

Such are the rules of defence in court. But such also are the rules of political attack. In this kind of attack it is not always necessary to say, and sometimes it is even quite necessary not to say, what actually is. It is important to create the variant of the charge which is most advantageous and at the same time the crudest and most easily to be stuffed into the reader's head. This rule of both juridical and political aesthetics Comrade Bukharin has evidently begun to master. Only thus can one explain how he has decided to accuse me of tenderness to concessions where I have written precisely the opposite.

His charge of workshop-mentality, trade-unionism, and so on, bears exactly the same relationship to the truth. The expression 'workshop-mentality' was used by Lenin in our inner-Party affairs. He understood quite correctly by it the inclination to sacrifice to the interests of the workers *as consumers* the interests of upholding the dictatorship, the interests of developing the whole socialist economy, the interests of the future of the working-class and of all the working people. In contrast, the line of accumulation is the line of defence of the interests of the economy as a whole, of its leading state sector, which is the driving centre of every progressive movement towards socialism; it is the line of strengthening the economic basis of the proletarian dictatorship in the struggle against the pressure of consumer spontaneity.

Comrade Bukharin has opened with his article a campaign against an attempt to think out the laws of development of the state economy, the conditions of its self-defence and its contradictions with private economy in the epoch through which we are passing. What does this mean? Is such a campaign needed for the success of the worker-peasant bloc on the basis of the maintenance of the dictatorship of the proletariat? No, this requires just the

opposite, it needs a cool analysis of what we stand for, for what purpose we make concessions and what are the limits of our retreats. *And the bigger our retreats, the more necessary is this analysis.* The peasant needs from us cheap goods and less taxation—he does not require of us theoretical capitulation, refusal to analyse the conditions of development of our economy. And if demands which went so far were to appear, then they ought to meet a most decisive rebuff. Yet Comrade Bukharin gives a rebuff in the opposite direction, and from this point of view it is necessary to think over his article fundamentally. Is this a first attempt at a retreat before the petty-bourgeois pressure on our party, on a point where we never retreated when we worked under the leadership of Lenin and ought never to retreat in the future?

My article on socialist accumulation was devoted to a question which will remain at the centre of our attention for at least two decades. We still need to discuss at length both the general question of accumulation and its arithmetical aspect. This is a quite new question. For this very reason I wished to put it first for preliminary consideration before readers who were prepared for it, and that is why I published my article in an academic journal. Instead of taking part in such a preliminary academic discussion of the question, Comrade Bukharin, transferring the discussion to a newspaper, has had to gloss over the very essence of the question, keeping quiet about what he himself does not wish to vulgarize; for the sake of his polemical aims he has given an absolutely false interpretation of the article as a whole and of particular passages in it; and as a result, instead of gradually introducing the whole problem in all its complexity to party thinking, he has conclusively muddled it all up.

I consider this method of discussion harmful, I reject it, and I concede to Comrade Bukharin all the laurels of his cheap 'victory'.

Other Opponents

*Comrade Motylev*¹

Comrade Motylev has made a printed attack on the chapter of this book devoted to socialist accumulation, in the form of a

¹ [Motylev, Vol'f Evnovich (1898-?), Soviet economist and popularizer of Marxism. He was an active participant of the Soviet economic debates during the Twenties, and in the following decades wrote extensively on the economy and the economic history of capitalist countries.]

pamphlet entitled *Surplus Value and Socialist Accumulation in the U.S.S.R.* (published by 'Burevestnik', 1925).

I am here going to deal not only with that part of the pamphlet I have mentioned which is directly aimed at me but also with Comrade Motylev's other writings on problems of Soviet economy. In passing I shall show that the self-assurance and aplomb of this prolific economist is inversely proportional not only to his scientific 'discoveries' but also to his mere *knowledge* of the subject.

Four-fifths of the objections which Comrade Motylev brings against me consist of simple repetition and exposition in his own words of everything that Comrade Bukharin has written against me in the article of his which I have already analysed above. Comrade Motylev has added almost nothing of his own. I shall dwell exclusively on those questions which I have said little about in my reply to Comrade Bukharin.

Comrade Motylev, following Comrade Bukharin, is obliged to agree that socialist accumulation cannot be realized without alienating part of the surplus product of the countryside and diverting it into the fund of socialist accumulation. He writes:

It is quite undisputed, of course, that the larger the volume of petty-bourgeois forms of economy in a given country the more important will be their contribution to primitive socialist accumulation. We have shown in the first section of this essay that all parts of the national economy participate in primitive socialist accumulation. It is quite obvious that the role played by each part is determined, first and foremost, by its relative weight in the national economy.

If the essence of Comrade Preobrazhensky's law consisted merely in establishing this fact, then it could be regarded as indisputable, but at the same time it would hardly constitute a scientific discovery.

The 'essence' of the law of primitive socialist accumulation does not, of course, consist only or mainly in the statement of this fact. The most serious of my opponents have directed nearly all their objections not against the need to pump part of the surplus product of the private sector of the economy into the State sector, but against the justification which I give for this pumping. And at the same time they have failed to perceive that only if the *law* of primitive socialist accumulation is established can this process be subjected to scientific study as a necessary process, and the minimum proportion to be pumped from one sector to the other

laid down in terms of objective necessity. On the contrary, my opponent is compelled to try to talk himself with generalizing phrases out of the problem of the balance of exchange of value between the state and private sectors, from which it is evident that he does not even understand in what the problem itself actually consists.

So Comrade Motylev allows us to take something, but only in proportion to the 'relative weight' of each sector of the national economy. In the first place it must be said that the state and private sectors are not a joint stock company, and to put the question in this way does not stand up to criticism from the standpoint of scientific theory. I am not now speaking of the fact that accumulation in accordance with 'relative weight' and not, say, with relative weight of surplus product would horrify Comrade Motylev by the burden of taxation it would lay upon the countryside, if he were to apply his formula of arithmetical proportion.

But our author has a formulation which is even 'more profound' and 'more irrefutable'. He writes: 'Thus, we have established that there cannot be any excessive appropriation by the state of the products of peasant economy' (pp. 17-18), and goes on: 'His mistake [i.e., mine, E.P.] is that, in his view, this appropriation can and must be lavish and substantial'.

How scientifically convincing all this is, is it not? The most important problem of our economy and our existence is decided on the basis of the proportion between the adjectives 'non-excessive', on the one hand, and 'lavish and substantial' on the other. Here for you to behold is theoretical economics as applied to our economy!

In the first place, in my chapter on accumulation I do not deal with the question on the plane of arithmetical calculation of the amount of surplus product to be alienated from the private sector, but merely elucidate the inevitability of this alienation and the objective necessity of an alienation of *such* proportions as are dictated by the law of primitive socialist accumulation. When I say 'dictated by the law', I mean in proportions which possess an extraneously obligatory character for our economic policy, in so far as the penalties for inadequate accumulation are goods-famine, possible breakdown of the monopoly of foreign trade, growth of private capital, and all sorts of other economic and political consequences.

In the second place, I enumerate those ways and means by which accumulation can be effected through the alienation of the surplus product of the private sector—and here I speak, incidentally, all the time about the private sector as a whole and not only about the peasants' part of it. What objection can Comrade Motylev bring against the *methods* of pumping, since he has acknowledged that the pumping process itself is inevitable? None. On the contrary, he writes that for socialist accumulation 'both price-policy and measures of the order of taxation will be used' (p. 15). What then is the issue between us?

The issue is, you see, that I consider inevitable a non-equivalent exchange with private, including peasant, production. In my opponent's view this means that petty-bourgeois production is 'transformed into a colony' of socialist industry. But now a natural question arises. If Comrade Motylev is agreed that part of the surplus product of the countryside is to be alienated into the socialist accumulation fund not only by way of taxation but also through price policy, *how can exchange, given the operation of such a price policy, be equivalent for the peasantry, from the standpoint of the law of value?* It seems that in his view peasant economy is transformed into a colony of socialist industry by the very fact that part of its surplus product is alienated through price-policy. If everything that is taken is taken through taxes, then, apparently, there will not be any 'colonies'. And contrariwise, the 'colonial' character of relations between the state and the peasants will increase when the state takes the same amount from them by way of price-policy, completely relieving them of their burden of taxation.

This is called theoretical economics! Of what use to our Soviet economy is this sort of theoretical economics?

In the third place, it is necessary to say the following about equivalent exchange. The prices of articles produced by our industry are considerably higher than foreign prices, while grain prices must in general gravitate towards the level of world grain prices, *which are formed in world economy on the basis of the competition of large-scale and medium capitalist farming with small-scale farming.* Therefore, even if we agree that exchange between agriculture and industry in world economy is equivalent in character—which has not been and cannot be proved—then nevertheless, given the circumstances mentioned above, exchange

between Soviet industry and Soviet agriculture cannot in any case be equivalent. This is a fact. If we were to try to get closer to equivalent exchange by approximating to the proportions of exchange which exist in world economy, and to this end were to allow freedom of foreign trade, two-thirds or three-quarters of our industry would cease to exist. It is sustained and is developing at present *on the basis of non-equivalent exchange*, protected from the law of value operating in world economy by socialist protectionism and the monopoly of foreign trade, that unique fusion of political and economic power which is characteristic of our entire system of state economy under the dictatorship of the proletariat. Non-equivalence is based *at present* above all on our technical backwardness and will naturally be reduced in proportion as we reduce our costs of production and the prices of industrial goods. But if we successfully develop large-scale collective farming, then the bigger the role it plays the more value-proportions of exchange between small-scale private peasant economy and the state sector will depend on the proportions in which labour is distributed between co-operative socialist farming and private small-scale farming, and consequently, non-equivalence in exchange between private farming and socialist industry will increase anew *owing to* the growth in the productivity of labour in socialist and co-operative farming. Therefore there can once again be no equivalence of exchange. This will be obvious from a numerical example. Let us suppose that at present we have the following proportions of exchange between cottons and grain:

<i>Industry</i>	<i>Agriculture</i>
100 hours	150 hours
100 <i>arshins</i>	100 <i>poods</i>
100 roubles	100 roubles

With an increase in the productivity of labour in industry and the *same* productivity of labour in agriculture we should have:

<i>Industry</i>	<i>Agriculture</i>
100 hours	150 hours
120 <i>arshins</i>	100 <i>poods</i>
100 roubles	100 roubles

or, which is the same thing:

Industry
80 roubles
100 *arshins*
80 hours

Agriculture
80 roubles
80 *poods*
120 hours

This means that whereas previously for one *arshin* of cottons agriculture paid $1\frac{1}{2}$ hours of its labour and one *pood* of grain, now it will pay only $1\frac{1}{3}$ hours or $\frac{1}{3}$ of a *pood* of grain. When an increase begins in the productivity of labour in co-operative farming, which leads to the exchange, let us say, not of one hour of industrial labour for one *pood* of grain but of one hour of industrial labour for $1\frac{1}{3}$ *poods* of grain, this will mean an increase in the non-equivalence of exchange for private farming, imposed upon it by the development of large-scale co-operative farming. The tendency will remain the same in the event of a growth in the productivity of labour *both* in socialist industry *and* in socialist farming, though it will be less strikingly expressed. It is quite clear that the entire problem will remain *only* for private small-scale farming, since it is only in the relations between this section of farming and industry that *exchange* will exist. Relations between large-scale socialist and co-operative farming on the one hand and state industry on the other will be organized as relations within a single composite entity, with gradual abolition of the market character of the ties between them, at first affecting more the content of the matter than the form and later both the form and the content. *Non-equivalent exchange between private farming and the entire complex of state industry and state and co-operative farming is in the given instance only an expression of the unprofitability of small-scale private production when compared with large-scale socialist and co-operative production.*¹ To achieve equivalence here means to support small-scale production at the expense of socialism, medievalism at the expense of the twentieth century. Such a policy would have nothing in common with Marxism and Leninism or even with common sense. To say nothing of the workers, even the progressive section of the peasantry would be decidedly against this support for Asiaticism

¹ My opponents pester me with the question whether I believe in co-operative farming. They thereby appear as monopolists of this belief. It is only surprising that they have not grasped hitherto that the progress of producers' co-operation in the countryside signifies, all other things being equal, a growth in the non-equivalence of exchange with non-co-operative farming, i.e., with the *greater part* of the countryside.

and barbarism at the expense of machinery and socialism.

As regards the constantly repeated observations of Comrade Motylev and other opponents of mine with respect to my failure to say anything about producers' co-operation in farming, I have this to say, as in my reply to Comrade Bukharin: I consider such co-operation both theoretically possible and practically inevitable, if the main base of socialism, which is the state sector of the economy, is to develop and become consolidated rapidly enough. But I do not at present see any matter here for theoretical study, since this process is only in the embryonic stage, and a scientific prognosis regarding it would be extremely difficult to make. My opponents likewise have offered *nothing* by way of such a prognosis, though not only has nobody prevented them from undertaking this task but also the entire position which they defend *obliges* them to do what they consider possible. Let them write about this, and we will duly read what they write; because up to now, apart from general phrases, 'beliefs', and petty attacks on me from the standpoint of this co-operative fideism, in no way furnished with any scientific backing, we have heard nothing from them.

In order to have done with Comrade Motylev, I must here bring forward just a couple of examples of how our economist carries out 'theoretical analysis of Soviet economy' in his course on political economy.¹ In this course, which for some merits which are not apparent is warmly recommended for use in our institutions of higher education, Comrade Motylev employs the following method of studying our economics. After expounding some problems of theoretical economics, he automatically pushes on into our system of economy, without changing horses or carriage, and here begins to get busy with analogies. All this would be possible if the author firmly held the view that our system is a variety of commodity-capitalist economy, as, for example, the Mensheviks think, and then such a procedure as this would be natural. Given a basically identical system, with the same regulator, the law of value, operating in it, and one and the same method of analysing it, all that would be needed would be to study the modification of forms. But the author is not committed to such view on this question. On page 4 of his 'work' he writes:

The economy of the U.S.S.R. can be a subject for theoretical study. The conflict between elemental and planned regulating forces gives

¹ V. E. Motylev, *A Political Economy Course*, Vol. I, Gosizdat, 1925.

rise to a multitude of theoretical problems. In the course of economic policy the economy of the U.S.S.R. is looked at from another, a teleological point of view. . . . At the same time, the economy of the U.S.S.R. is a commodity-exchange economy in form and also to a certain extent in content. Furthermore, it contains elements of capitalist economy. Many laws and categories of political economy seem directly relevant to it. In reality this is not so. All the laws and categories of capitalist economy undergo substantial modifications in the economy of the U.S.S.R., and many of them do not apply to it at all.

On page 137 of the same book we read: 'Labour value continues at present to be *partially* [emphasis mine, E.P.] the regulator of the national economy, the internal regulator of the distribution of productive forces in the economy of the U.S.S.R. as well'. At the same time we find in another book by our author, *Price and Value in Capitalist Economy and in the Economy of the U.S.S.R.*, on page 80, that 'labour-value continues at present to be the regulator of the distribution of productive forces in the economy of the U.S.S.R.', without the word 'partially'. There is a difference of one word only, just as between the expressions 'I know' and 'I know not' there is only the difference of the one word 'not'. The question now arises: which formulation does the author stand by, and what must the puzzled reader think about this matter? After all, if the law of value operates only 'partially', then there must be other—methodologically other—ways of analysing the economy, as an economy of an internally antagonistic type, in which equilibrium is brought about on the basis of a conflict between two principles which operate in different directions. If the law of value is basically the *sole regulator* and the planning principle is only a function of it, then no special theory of Soviet economy is needed at all, and the method of commenting in passing on the economy of the U.S.S.R. while studying theoretical economics, in which Comrade Motylev has hitherto indulged, is not open to any objection. But then a question of a different order arises. How does Comrade Motylev combine this sole regulator, on the basis of which, after all, there takes place spontaneously the reproduction of capitalist relations of production, and not expanded reproduction of socialist relations, with industry 'of a consistently socialist type'? While Comrade Motylev underestimates the planning principle in our economy, on the other hand, it is very hard, after everything that has been said, to over-

estimate the role and significance of the planning principle in the system of his own ideas.

A couple of words in conclusion on this same *Political Economy Course*. On pages 339 and 340 of this 'classic' work the author speaks of 'socialist surplus value' in the state enterprises of the U.S.S.R. But a few lines below this we read with amazement the following, about 'developed communist society': 'But in developed communist society the productive forces attain such a powerful state of development that, notwithstanding *the existence of surplus value* [emphasis mine, E.P.] the demands of the working people can be satisfied to an unprecedented extent' (page 340).

Thus, while surplus value in the state enterprises of the U.S.S.R. is 'socialist', in 'developed communist society' it will be simply 'surplus value'. Evidently as the product of communist capital!

But that is not all. On the same page we read regarding rent: 'As regards land rent, owing to the nationalization of the land, capitalist absolute rent cannot exist in the U.S.S.R. And differential rent, resulting from the difference between the fertility and location of different plots of land, has to be placed at the disposal of the Soviet power through adjustment of the burden of taxation' (page 340).

So differential rent, for the existence of which Marx considered it necessary that the capitalist mode of production, with private property in land, should hold agriculture in its grip, is seen by Comrade Motylev as springing up out of the land itself in most satisfactory fashion.

All this is called a *Political Economy Course*, and bears a yellow label stuck on its cover, with the inscription: 'This course has been adopted as a manual of instruction for institutions of higher education.'

*Comrade Thalheimer*¹

In two places in his article in the journal *Bolshevik* called 'On

¹ [Thalheimer, August (1874-?), leading German Communist. He was a left-wing Social-Democrat before the First World War, and during the war was active in the *Spartakusbund*. A member of the Central Committee of the German C.P. from 1918 till 1923, he lived in the Soviet Union from 1924 till 1928. Upon his return to Germany, he was expelled from the C.P. for 'rightist deviation' and helped to form the 'Communist Party-Opposition' (K.P.O.). When Hitler came to power he went into exile. He wrote extensively on matters of Marxist theory (major publication: *Introduction to Dialectical Materialism*).]

the formal and material relation of socialist economy in its initial stage to pre-capitalist economic forms'¹, Comrade Thalheimer mentions the author of these lines. At the beginning of the article he writes: "The questions brought up by Comrade Bukharin in his article "Economic growth and the workers' and peasants' bloc", in *Bolshevik*, No. 14, and in his polemic with Preobrazhensky, possess *general* importance. In his dispute with Preobrazhensky, Bukharin is right *in principle*' (page 15).

After this categorical declaration one would have expected to read some crushing arguments against the one who is in the wrong. To our surprise, however, there is nothing at all in the article directed against the author of these lines, except one note, about which more later. Also, it does not seem that the writer read my article at all, or at least that he understood it. He throws out the scraggy skeleton of something like the outline of an article, which has no direct relation to the chapter of this book which gave rise to polemics, and which resembles a shell fired into the blue just to be on the safe side. I shall therefore discuss here only those two places in Comrade Thalheimer's article, of which only one has any direct relation to my opposition.

At the very beginning of his article Comrade Thalheimer demonstrates, for some reason using arithmetic, the quite undisputed idea that if a socialist revolution were to occur in Germany this would lead to an organic unification of the economy of the U.S.S.R. with the socialist economy of Germany, and consequently, 'the problem of the Russian peasantry' would not disappear. It would then exist both for the socialist economy of the U.S.S.R. and for the socialist economy of Germany, since these two economies would constitute a single composite entity.

I quite agree. I think so, too. But this only means that Comrade Thalheimer, perhaps partly owing to inadequate acquaintance with my chapter on socialist accumulation, has adduced a supplementary argument in support of my proposition that the law of primitive socialist accumulation must operate to some degree and for some time after the socialist revolution has taken place in other countries as well, including industrial ones. In full agreement with this conclusion and partly for the reasons which I adduce in my chapter on socialist accumulation, Comrade Thalheimer supported the way I put the question in a much earlier article of

¹ *Bolshevik*, 30 April 1925, pp. 15-24.

his in the same journal, *Bolshevik*, devoted to the programme of the Comintern. In that article Comrade Thalheimer quite correctly observed: 'The capitalist economy of particular countries will pass into the hands of the working class not, of course, in its most developed form, but in a more or less *decadent condition*. The further development of economic forms will begin only after the restoration of the highest forms of the old society' (page 16). And I agree with this. And this is an argument in favour of my view that it will happen, perhaps, that the industrialized countries of Europe too will have, after the revolution, to pass through the stage of preliminary socialist accumulation.

I must say that I have absolutely nothing against such a splendid polemic against me, and I can only beg that it be continued.

Let us now turn to the other, and so far the only, place in Comrade Thalheimer's article where he attempts to argue directly against my 'erroneous conclusions'. Having shown that relations between the peasantry and the proletariat, between peasant economy and socialist industry, will assume different forms from the relations between the peasantry and industry in the capitalist epoch, that these will no longer be relations of exploitation, and having at the same time stressed the possibility and inevitability of friction and conflicts even 'within the framework of these new relations', Comrade Thalheimer writes:

In general it must not be thought that since socialist economy constitutes a harmonious system it will be free from all contradictions, from real antitheses. If it were indeed so, *it would not be a developing system*. But whereas the contradictions of the capitalist system have a tendency to destroy the system itself, under the socialist order they have the opposite tendency, tending to develop it, to strengthen it, expanding it externally and perfecting it internally.

The erroneous conclusions (for example, Preobrazhensky's, but also those of the theoreticians of social democracy and of the bourgeoisie) spring from the fact that in its *external form* the relation between simple commodity production and capitalist economy is *at first glance* the same as that between it and socialist economy (the money form, market relations). But the money form conceals in the second case a socialist content; now, when there is socialist economy at the other pole, money serves diametrically opposite purposes.¹

We have given this long quotation in order to present the

¹ *Bolshevik*, No. 8, 1925, p. 22.

reader first of all with a specimen of a very strange polemic. What erroneous conclusions of mine are being discussed, where were they expressed, on what page of my article? What has all that is written here to do *with me*?

You will not get any answer from the article itself, and perhaps this is because—as we suggested above—Comrade Thalheimer has simply not read my article and knows about it mainly ‘by repute’. I do not affirm that this is so, but such a suspicion is quite natural after what has been said.

Passing to the content of the excerpt I have quoted, I must express my complete agreement with the statement that the socialist system, precisely as a developing system (*Widerspruch ist fortleitende*), will know its own kind of internal contradictions, peculiar to itself alone, and I agree also that such contradictions will not ‘possess a tendency to destroy the system itself’. The only pity is that this proposition, true in itself, has nothing to do with the subject under dispute. *What is being discussed is not the internal contradictions of the socialist system itself, when it has basically triumphed, but the contradictions which result from the struggle of the socialist system against another, a commodity-capitalist system, for its existence and development.* The contradictions resulting from this struggle ‘tend’ not to the development of the socialist system, not to its ‘internal perfection’, but to its destruction. This liquidation of our system is necessary for the ‘perfection’ of the capitalist map of the world, which was gravely mutilated by the October Revolution. In my article on socialist accumulation I was concerned with the laws of development which are taking shape in the desperate struggle for existence waged by our system; I was not dreaming academically about the harmonious contradictions of a future society.

As regards the misunderstanding, attributed to me, of the outward forms of the present relation between the state sector and peasant economy, behind which is hidden a quite different content from that of relations between peasant economy and capitalism, there is nothing to confirm this charge. Others have taken up this word ‘exploitation’, but I have already noted that I withdraw this term, though exploitation of one *system* by another remains, since there is alienation of surplus product from one form of production to another. Finally, I do not deny in the least the uniqueness of the relations between small-scale production and the socialist

sector of the economy after the proletarian revolution, even though the socialist sector also carries out alienation of part of the surplus product of small-scale production in order to secure expanded reproduction. The originality, the novelty, the uniqueness of these relations is constituted on the basis of co-operation in the countryside and the interlocking of rural, above all producers', peasant co-operation with the state sector. As to how this process will go forward, one can at present speak only in general outlines. There is hardly any material for theoretical analysis, though there is already material enough to warn us against 'Communist Narodism', and *this* material deserves to be seriously studied.

To sum up, Comrade Thalheimer's article suggests to my mind the following analogy. A certain man has loudly announced that he is going to give another man a thrashing. But when the moment has come to carry out his threat, he lifts his eyes to heaven and starts to demonstrate that the sun most not be confused with the moon, the moon with Mars, or Mars with Marx's *Capital*.

Comrades Ksenofontov,¹ Kviring,² Bogolepov³

A very long article, written in an extremely sharp tone and directed against my chapter on socialist accumulation, was contributed by Comrade Ksenofontov to the newspaper *Pravda Vostoka*, published in Tashkent, in its issue of 16 December 1924. This article contains the usual pearls of polemical looseness and irresponsibility, such as 'Trotskyism', 'Menshevism', and so forth, which have been introduced into our manners and customs by the 'elders'! I do not know how long Comrade Ksenofontov has been

¹ Not to be confused with the recently deceased old member of our Party, Deputy People's Commissar for Social Security Ksenofontov.

² [*Kviring, Emannuil Ionovich* (1888-1939), leading party and state official. He joined the revolutionary movement in 1906 and the Bolshevik party in 1912. Secretary of the Bolshevik group in the IV Duma. Member of the Central Committee of the C.P.S.U. (1923-34), secretary of the C.P. in the Ukraine (1918-25), Vice-Chairman of the Supreme Council of the National Economy (1925-7) and of the State Planning Commission (1927-30 and 1934-7), head of the Institute of Economics of the U.S.S.R. Academy of Sciences (1932-6). Purged.]

³ [*Bogolepov, D. P.* (1885-1941). Party member from 1907; delegate to Sixth Congress in 1917. Deputy People's Commissar of Finance 1918; represented it on commission which drew up the 1918 constitution. 1920-1921 Rector of Moscow State University; 1925-1931 Professor of Moscow State University; 1933 worked in the Institute of Nationalities attached to TsIK of the USSR. Author of *Voina i Finansy* (1917), *Defigi Sovetskoi Rossii* (1924), and articles on financial questions.]

a Party member. Judging by the sharp tone of his article I deduce that he has not been in the Party long. And if the author is that Comrade Ksenofontov who in the discussion of 1923 energetically took part on the side of the Opposition and in particular joined vigorously with the writer of these lines against Comrade Bukharin, then his sharpness now does not call for any special explanation whatsoever.

Comrade Ksenofontov begins by setting forth Lenin's views on the mutual relations between the proletariat and the peasantry, which I have *always* shared, have never and nowhere opposed, and today share fully and entirely. I object only to the oversimplification and vulgarization of these views, the interpretation of them in a Narodnik spirit, which is especially dangerous for our young people who have not shared with the old Bolsheviks a twenty-year struggle against the Narodniks, the Socialist-Revolutionaries, the revisionists of the David and Vollmar type, and so on. In a country with 100,000,000 peasants and a comparatively thin proletarian stratum, with the constant influx of fresh workers from the countryside who have not had a proletarian tempering, with the constantly intensifying pressure of the commodity economy of the countryside on state industry and state power, the danger of our young people yielding to petty-bourgeois influences coming from the countryside, and to petty-bourgeois utopias, is not less great than the danger of underestimating the importance of collaboration between the working class and the middle peasantry.

Comrade Ksenofontov has seen nothing in the law of socialist accumulation except the term—'exploitation of one system by the other'. This is characteristic of the methods of polemic used by my opponents, and not of my article. The law of primitive socialist accumulation is the law of expanded socialist reproduction, connected with specific laws of development, namely, those of the *given* period. How expanded reproduction in our industry contradicts the interests of the peasantry, even if we take for it not only the surplus product of the workers but also the surplus product of the peasants, is absolutely incomprehensible. The ones who are guilty of underestimating the peasantry, of weakening the bond with the countryside, are not those who in good time, that is, *before* the acute manifestation of the goods famine, spoke of the importance of the problem of accumulation and of the

danger of under-accumulation, which would mean a regular, and politically also very dangerous, crisis of under-production, but those who did not want to understand the obligatory necessity for us of certain definite proportions of accumulation, which means objectively inevitable proportions of alienation of the surplus product of private economy.

My opponent can take back in the same parcel all his charges regarding the possibility of a breach in the workers' and peasants' bloc: history is sending this parcel back, for the true addressee has turned out, when there was a check against the facts, to be the sender himself and his co-thinkers. The Fourteenth Congress of the Party has taken a decision on the industrialization of the country. But there can be neither industrialization nor struggle against the goods famine *on the basis of the development of our own industry* without rapid accumulation in each previous phase of reproduction.

Learn to be Leninists *in content* in this new situation, and not in the realms of tittle-tattle.

The same writer has commented on my reply to Comrade Bukharin in a review of issue No. 11 of the *Vestnik Kommunisticheskoi Akademii*.¹ He considers my reply to be a surrender. I was expecting that this method of surrender on the part of opponents would be put into circulation at some time, and I was not mistaken. What is important for me, however, is the essence of the matter, what is important is that the views I have developed should be acknowledged as correct, regardless of what literary form my opponents may console themselves with, after all the misunderstandings evoked by my first article or polemical distortions of my point of view have been eliminated.

Comrade Ksenofontov² brings forward, besides political 'arguments' which boil down to the usual declension of the word 'Trotskyism', and of which everybody has long since grown sick, two ideas, one methodological in character and the other taken from the province of economic policy. As regards the latter of these two ideas, the reviewer objects to my statement about the need to proceed to the reduction of prices and not vice versa. He writes: 'Before accumulating we need to open up the peasant market,

¹ *Pravda Vostoka*, 5 June 1925.

² The author signed with the initials F.K. but identifies himself as the author of the first article.

the purchasing power of the peasants, to “unlock our market”, and only on this basis to proceed to accumulation. That is how it happened: from a policy of price-reduction to accumulation, and not from accumulation to price-reduction’.

But I say *both* that it *happened* in just the opposite way, *and that it will always happen in just the opposite way*. The autumn sales crisis, which proved to be merely episodic and was connected not only with the fact that the prices of the products of our trusts were high but also with the excessively low price of grain, was liquidated so easily by reducing industrial prices and raising grain prices through state procurement only because previous accumulation had enabled state industry to reduce prices and, other things being equal, only the expansion of production, charging the factories with more work, and so on—that is, once again, expanded reproduction, which means accumulation—could make a further reduction possible. The reduction of prices is in fact a *function* of expanded reproduction, that is, accumulation (by accumulation in the broad sense we understand expanded reproduction, which necessarily includes the accumulation of material resources in the preceding cycle). That is how it happened and that is the only way it will happen in the future, especially in a period when every year there is in prospect huge and constantly increasing expenditure on restoring basic capital and on new construction. Whoever proposes to reduce the prices of metal or cottons *before* a reduction of costs has been achieved is proposing to suspend not only expanded but even simple reproduction. We shall be able to effect a more acute and appreciable reduction of prices *after* we have built new factories and standardized production in the American way. And for this new building we need to have resources ready beforehand, and that means, in this new situation too, first *accumulation* and then *price-reduction*.

Since my opponents have transferred their dispute with my chapter on socialist accumulation into the sphere of economic policy, they have been *beaten not in the press but by history, beaten fully and thoroughly, beaten by the fact of the prolonged goods famine*, while my article on socialist accumulation was the scientific *forecast* of that famine.

Now for a little more about Comrade Ksenofontov’s methodological observations. My opponent, contrasting my method of analysis with the abstract-analytic method of Marx, writes that

Marx's method proceeds from the 'primary concrete'. . . Later Marx broke down this 'primary concrete' into its abstract categories and from them re-established the 'secondary concrete'—cognized capitalist reality. . . . But Comrade Preobrazhensky has built up his 'capital' in a different way. He has taken the concrete relations of Soviet society in *a cross-section which was incorrect to start with, abstracted from all the distinctive properties of the laws of development of the economy of a workers' state in a peasant country*, and we find in his work the formally-logical reality of an abstract workers' state, not that of *the real workers' state in a peasant country*.

I will not discuss whether the author has or has not correctly expounded Marx's method. What is important here for me is that he does not understand the difference between the methodological approach to the analysis of a system in which *one* basic law, one basic regulator operates—under capitalism, therefore, the law of value, from which all the categories can be deduced (regardless of the method of exposition)—and that appropriate to a system where two laws are at work. First of all, the 'commodity', which Marx analyses in Volume I of *Capital*, is not a less but a more abstract entity than the law of value and the law of socialist accumulation *in a specific country*, the economics of which I am studying. Secondly, the author does not understand (what should be obvious enough, even through the Narodnik howlings which this chapter of mine has provoked) that my entire construction with regard to the law of primitive socialist accumulation results above all and most of all from the very fact of the peasant character of the country. To the extent that the country where the socialist sector of the economy is beginning to struggle for its existence and development is more peasant and less proletarian, to that extent the real economic policy of the workers' state must deviate *more* from the theoretically-conceived straightforward law of primitive socialist accumulation or, which is the same thing, the law of expanded socialist reproduction. The more peasant a country is, the more abstract must the method of analysis be, because it will be that much more important to distinguish in the State's policy that which is *dictated* by the law of socialist accumulation and that which is *imposed* by the peasant character of the country. The more a country is industrial, the more it is proletarian, the less, when analysing its socialist economy and the dynamics of its expanded socialist reproduction, will the line of operation of this law in its

pure form be found to deviate from the actual economic policy of the workers' state, the less will it be necessary to resort to abstraction. The matter stands thus exactly the other way round from what Comrade Ksenofontov asserts.

Of my other opponents I will mention Comrades Kvirng and D. Bogolepov. Comrade Kvirng has already over a long period pursued me with his polemics, on various pretexts, but I have not thought it necessary to reply to them owing to their vapidity. He has not added any fresh arguments concerning the question under discussion to those which other opponents have used, and in the main he operates with a single argument: underestimation of the peasantry. We have already seen who actually underestimated the peasantry and its purchasing potentialities. I do not intend to spend much time on Comrade Kvirng. When you read his writings for some reason there always insistently comes into your mind Bismarck's phrase about the journalists of his time. Bismarck said of them that they had obviously missed their vocation.

Comrade D. Bogolepov also pursues me persistently with his reviews in *Ekonomicheskaya Zhizn*, but he does not consider it necessary to provide proof for his dicta. Regarding the chapter on socialist accumulation he has written in his time:¹ 'In no way, however, can the article be considered a work of serious scientifically Marxist thought.'

I do not know what relation there may be between 'serious and scientifically Marxist thought', as conceived by Comrade Bogolepov, and the present work. I must admit, however, that I do not tremble before the verdict of this Themis, whom school children have long since left behind, in understanding both of Marxism and of our economy. I account very much more important the impartial opinion of our student youth and especially that of our young workers, and also the opinion of all those who have long since been sickened by the emptiness of general phrases about NEP and who are seeking, in order to find their bearings in the ever more complicated situation, a way out on to the road of more profound analysis of our economy.

In conclusion I should like to explain to readers why I have observed in my polemics against my critics a mildness of tone quite out of proportion to their injustice to me and to the vigour of their own expressions. If you have something to say on the

¹ *Ekonomicheskaya Zhizn*, 3 December 1924.

content of the matter in dispute it is easy to refrain, in the interests of the discussion itself, from the sort of polemical strong language which often conceals, in my opponents, the absence of a point of view of their own on a number of new problems. Moreover, I still have a great deal more to say in defence of my propositions, and this I shall do, figures in hand. I have utilized this natural advantage of my position in this book.

*Comrades Astrov, Goldenberg, Nagiyev*¹

The number of my opponents is in inverse proportion to the theoretical quality of their criticism. The low level of this criticism finds expression above all in its endeavour to prove too much. My critics collect arguments as ragmen collect rags, wherever they find them, and, as is always the case, through trying to prove too much, in the end they prove nothing. Given the logical coherence of my ideas, which none of my opponents has denied, the critics should have concentrated on attacking and destroying the few fundamental starting-points, and then all the deductions would have collapsed by themselves. That is how real criticism proceeds, criticism which *strikes at the adversary* and does not smash itself to pieces against the object of its attack. But criticism of *that* kind requires a trifle which is beyond my opponents' capacity—a thoroughly thought-out counter-conception of their own regarding the Soviet economy, and a formal break with Marxism. They cannot possess such a counter-conception, however, and this is why. All of my critics, without exception, are eclectics. They have begun to evolve away from revolutionary Marxism and Leninism, that is to say, they have begun in theory to depart from the class positions of the proletariat, but they do not yet know how they will end up. Some will doubtless turn back to the old positions of Leninism, others will go further in their present direction. The ideological frontier of this journey is Narodism in its Soviet edition. But many of them will possibly stick half-way (as is quite characteristic of intellectuals), between the two stations named 'proletariat' and 'petty-bourgeoisie'. If they do end up balancing between the two classes then my critics will never produce any kind of coherent and harmonious counter-conception at all. As regards the positions of consistent Narodism, to think them out thoroughly now, overcoming time and a period

¹ [This section was added in the Second Edition.]

of history still not completed, and to come to their defence, is something which hardly any of my critics is capable of undertaking; being as they are, people of the passing conjuncture both in politics and in theory, they are incapable equally of a consistent proletarian or a consistent petty-bourgeois point of view.

That is why I am not threatened by any danger of serious criticism. That is why I am obliged to concern myself with a miscellaneous collection of my opponents' arguments and not with a *system* of arguments.

I will begin with the most substantial objection which was brought against me, rather belatedly, by Comrade Astrov and which was later repeated by Comrade Goldenberg and others. They reproach me with a basic methodological error, consisting in counterposing the socialist sector to the *whole* of private economy, without differentiating the latter into capitalist elements, rural petty production, the poor peasantry, and so on. Comrade Astrov writes:

The 'fundamental' law of development of the socialist sector of the economy, which overcomes private economy, proves to be one and the same whether one is talking about the relations of the socialist elements with the petty peasant holdings or with the capitalists, concessionaires, and so on.¹

Of course all forms of private economy are distinguished by the fact that they are not socialist. One can, of course, find certain general principles with which socialism approaches the whole of private economy in general. But whoever is tempted on the basis of these too general principles to construct a very simple and apparently harmonious system of two camps—on one side socialism, on the other everything else—and to seek out a single 'general' law of socialist accumulation at the expense of private economy, for the transitional period, runs the danger of falling into useless 'simplicity', and his diagram will remain a crude and politically harmful vulgarization.²

. . . the theory of the transitional period must be *basically* a theory of a two-class society (workers and peasants). It must start from this. '*Socialism plus petty production*' must here serve as the starting-point of an abstraction, after which the question of capitalism must be brought into the sphere of analysis by way of concretization.³

This, then, is the objection. First of all let us eliminate from

¹ *Bolshevik*, No. 13, p. 9.

² *Ibid.*, p. 10.

³ *Ibid.*, pp. 11-12.

the very start any possible misunderstandings. When I counterpose the tendencies of development of state economy, on the one hand, and private economy on the other, what is involved is investigation of *objectively formed relations*, and not the *economic policy of the Soviet state* in relation to various groups of the peasantry, private capital, and so on. And when he speaks of the 'general principle with which socialism approaches the whole of private economy in general', Comrade Astrov seems to be talking not only about a scientific approach, not only about investigating what exists but also about economic policy. To confuse these things would be to create a muddle.

In the general theoretical part of my analysis of the Soviet economy I did not take on the task of concretely investigating the mutual relations between different groups of the peasantry and the socialist sector, because this is the subject of my second volume. In the first part of my book I confine myself to emphasizing the fundamental contradiction between the developing socialist sector of the economy and the whole of private economy, because this contradiction in the sphere of regulation is developing as a conflict between the law of primitive socialist accumulation and the law of value, that is, along the line of struggle between two systems, one of which is replacing the other historically: the system of commodity production and the system of planned socialist production. Between *simple* commodity production, represented in our economy by peasants, handicraftsmen and artisans who do not exploit the labour of others, on the one hand, and capitalist production, on the other, there is, to use a zoological term, a difference of species, but they are economies of one and the same *genus*; that is, both are forms of *commodity production*. In counterposing *all commodity production* to the socialist tendencies of development the investigator is *obliged* to make abstraction from the difference of species between simple commodity production and capitalist production. To refuse to investigate the laws of development of our economy on this plane is to surrender to the petty bourgeoisie in the sphere of theory.

That is the first point. The second and most important proof of the correctness of my method of analysis is as follows. Who is our *fundamental* enemy, from what direction comes the fundamental threat to the Soviet system? From world capitalism, of course. When I counterpose the socialist sector of our economy

to private economy, this private economy is to be seen as a sphere of action of the law of value, into which world economy and the world market enter as a fundamental element. The longer our system exists and the more its connexion with the world division of labour increases the clearer it will become to everyone, even to people with a provincial horizon, that the basic line of struggle between the socialist sector of our economy and the bourgeois system corresponds to the line of struggle against world capitalist economy, that it must be reflected both in the totality of our relations with internal capitalism and in our relations with internal petty production. The law of value is the law of world economy; it operates distortedly in our system or else it is partly abolished, not because we have a hundred million peasants but *in spite of* their being so numerous and *thanks to* the existence of the socialist sector of our economy.

Comrade Astrov thinks he can get out of recognizing the presence of the law of primitive socialist accumulation in our economy by making the theory of the transitional period a theory of two-class society. I assure him that if one begins to investigate from this starting-point and carries it through conscientiously in the spirit of revolutionary Marxism and Leninism, without falling into national and peasant limitedness, then the law of primitive socialist accumulation will inevitably overtake the investigator, even if only as a law arrived at by the inductive method. Because the investigator will be concerning himself not with the relation between the workers and the peasants under the dictatorship of the proletariat in general, but with the relations between these classes in the actual Soviet economy of the present period. Just try to avoid when making such an investigation the fact of differentiation among the peasantry, as a result of which the development of the productive forces by way of the establishment of *kulak* and well-to-do holdings, that is, by way not of socialist but of anti-socialist organization of agricultural labour, is proceeding faster than the establishment of producers' co-operatives in the countryside (collective farms, mainly). Just try to avoid the problem of export, import and the exporting groups of the peasantry, forget the inter-relation between our prices and foreign prices, ignore the problems of the goods famine, accumulation and industrialization *in present conditions*, that is, with the present relations between the U.S.S.R. economy and world economy. The law of

primitive socialist accumulation is the law of the relation between the socialist sector of our economy and not only private economy inside the country but also the whole of world economy. To turn it into a theory of the relation between state economy and peasant economy is to substitute for the problem as a whole what is only one part of it. Abstracting from the world market and our basic antagonist, and concocting a theory of a closed-in worker-and-peasant society and its economy means replacing Marxist investigation of the question with a Gothamite and philistine theory of Soviet economy. I would strongly recommend Comrade Astrov, and my other opponents who share his point of view, to hurry up and complete an investigation along these lines. It would most probably produce such a laughing-stock of a result that three-quarters of our disputes would be liquidated through the intervention of a fresh factor, namely, ridicule—which, as the French say, kills.

The whole of the second section of Comrade Astrov's article, entitled 'Comrade Preobrazhensky's Theory as Grounds for a Policy of Expropriating the Peasantry', consists of 'grounds' for this political slander. I do not intend to reply to the political polemic in this book, because I am by-passing this particular thrust. I would merely advise Comrade Astrov to refer to the history of the labour movement and see what name is borne by those who try to incite the small proprietors to adopt socialism, and how such exercises have usually ended.¹

To make a pile of the arguments brought against my book, to enumerate and analyse them would be a tedious and unprofitable (in a dispute *of this kind* scores of such arguments can be concocted), and would furthermore only encourage my opponent to continue this activity. I will confine my attention to two of them. In Comrade Astrov's opinion, by putting forward the conflict between two principles, that is, between socialism and private economy, (1) I forget Lenin's requirement that we 'take into account all the five social-economic formations' of which Lenin speaks in his pamphlet on the tax in kind, and (2) it is not clear from my book which of these forms predominates in our country.

¹ The relation between state economy and peasant economy from this standpoint is becoming more and more a function of our relations with world capitalism; which, of course, does not exclude but on the contrary renders necessary a concrete analysis of the relation between the workers and peasants within the Soviet system, with all its distinctive features and its particular dynamic.

I will deal with this 'piled-on' argument not because it shows my opponent and his companions in a stupid light but because of the importance of the question of how to characterize our system as a whole.

When he replied to me in his feuilletons in *Pravda*, Comrade Bukharin reproached me with seeing only conflict and not unity in our economic system as a whole, as though the unity of our economy were not the outcome of conflict, the resultant of the struggle of the proletariat, organized in the state, armed with the state economy and supported by the poorest peasantry, against world economy.¹ But Comrade Astrov, in order, apparently, to corroborate Comrade Bukharin and emphasize the 'unity' of the system, recommends me to remember about the five social forms.

In the first place, Lenin *never* ceased repeating the idea of the struggle between two principles in our system, and sometimes he did this in such a sharp way as would nowadays positively put the wind up our 'Communist Narodniks'. Secondly, the mention of five social-economic formations actually existing in our economy in no way prevents one from analysing these from the standpoint of the struggle between two principles, that is, by classifying them in accordance with the fundamental historical forms of production relations. We have here in this chain two fundamental links—first, the socialist form with a mostly or partly co-operative periphery (a periphery of workers' co-operatives, at any rate), and then there is commodity production, both simple and capitalist. These are the two fundamental links, and it is necessary to keep this fact in mind in characterizing the whole system, because the relations of the state-capitalist type and to some extent those of the co-operative type are intermediate relations, interstitial between these two basic links. They are the connecting tissue of two different economic forms. One cannot define the system by its connecting tissue, which exists only because the first two links co-exist in a single system, as two contending principles. One cannot define the system merely in terms of one of the basic links. The socialist principle and the principle of commodity production contend with each other in our country, and also co-operate on

¹ All the charges made against me about 'colonies', plundering the peasantry, and so on, are exercises of the same type as this, and merely stir up the peasants against the building of socialism.

the basis of this contention. For this reason I have long proposed that our system as a whole should be called a transitional commodity-socialist system. I have not heard a single convincing argument against this way of describing it, except to the effect that a 'dual' expression is clumsy. But the clumsiness of the expression reflects the 'clumsiness' of our economy as a whole. When socialism is victorious in Europe the socialist principle will triumph all along the line from the very start, and the expression 'commodity-socialist economy' will probably not be needed to describe the European economy. In any case, since Lenin rejected his term 'state capitalism' as a description of our economy taken as a whole, our system has been 'travelling incognito'. It is high time to decide on some name for it. However, I do not expect much help in this respect from my opponents: the social subsoil of their criticism is not one of those foundations on which the flowers of theory bloom.

As regards the question of the prevailing principle in our economy, and Comrade Astrov's attempts to palm off on me a recognition that capitalism is the prevailing principle, faced with the brilliant prospect of continuing the dispute on the basis of the morals 'prevailing' in our polemics, along an already well-trodden road, I must interrupt at the very start.

Comrade Astrov knows, of course, that all these artful dodges of his are so much rubbish because they contradict the fundamental presupposition and the basic conclusion of my book, as well as many passages in the text. But since the hopeless eclecticism of his own views, and his utter lack of any thought-out point of view of his own on our economy, render it impossible for him to carry on a polemic on the fundamental points of our real differences, he tries to add to the pile an argument about my being a pessimist, not knowing that his own co-thinkers are still reproaching me to this day with excessive optimism about the potential role of the socialist planning principle in our economy. There is a struggle going on at present in our country between two systems, and the prevailing one will be the one that comes victorious out of this struggle. In general one can find crying contradictions in the arguments of my critics. Each of them wants to 'distinguish himself' in the polemic and gathers his 'bits and pieces' wherever he can. And since none of them has a unified, thought-out conception, but only the general tendency towards 'Communist

Narodism', at every step they put forward completely contradictory arguments. One could write a whole article on the subject of the contradictions in the writings of my opponents, if the investigation of new problems did not oblige one to put off this not very productive task to another time. To those who in their polemic with me have stressed (without any occasion for this being given on my part) the harmful consequence of 'monopolistic decay' in our state industry, I should like to recall the harm done by monopolistic decay to a certain section of our press, and the extraordinary danger constituted by monopoly in criticism to such 'writers' as my opponent.

Let me now pass to Comrade Goldenberg. To one of his articles I have already replied in No. 15-16 of *Bolshevik* (31 August) and I do not intend to repeat what I said in that reply. Here I wish to deal with Comrade Goldenberg's article in No. 11 of *Bolshevik* under the heading: 'Questions of Economic Policy' and with his reply to me published in No. 15-16 of *Bolshevik*.

In contrast to the 'previous speakers', Comrade Goldenberg's objections do not belong to the category of crudely concocted political slander. But the mechanical piling-up of arguments is to be seen here too. Thus, for example, in the first of the articles mentioned we find the following idea regarding the contradictions in my entire theoretical construction. After setting forth my view that the development of the state economy to the optimum extent is at present impossible owing to the resistance of private economy, and after declaring that development towards socialism will mean the strengthening of the socialist tendencies, increase in their relative weight, and an approach to optimum working of the law of primitive socialist accumulation, my critic concludes:

... in other words, the more strongly socialist industry develops and the nearer we come to socialism, the less equivalent will be our exchange with agriculture, the heavier will be the taxes on the countryside, the higher will be the prices of industrial goods, for what else can be meant by an approach to the optimum working of primitive socialist accumulation, which must be the result of a change in the 'balance of forces' in our favour?

The nearer to socialism the more the alienation, the more the pumping-out! This is obviously absurd, this is crazy nonsense, but how can Comrade Preobrazhensky draw any other conclusions than these from his own words?

I have dwelt on this 'argument' of Comrade Goldenberg's in order to show every honest reader how 'objections' are composed in these days. This is one the consequences of the polemic against Comrade Trotsky which has poisoned the whole atmosphere and created an unprecedented irresponsibility in polemic generally and in theoretical polemic in particular. Essentially, Comrade Goldenberg's objection is a quite childish misunderstanding and inability to handle not only dialectical but even elementary logic.

Why do I speak of *primitive* socialist accumulation?

Because it precedes true socialist accumulation and prepares the elements for the latter.

How will socialist accumulation differ from primitive socialist accumulation?

By the fact that it will take place in conditions when the socialist sector of the economy has placed a new technical basis under itself and developed all the economic advantages over capitalism which are inherent in it. Primitive socialist accumulation, on the contrary, takes place on the basis of technique at a lower level than under capitalism, with a lower cultural level of the workers in the state economy.

What, in this connexion, is the law of primitive socialist accumulation?

It is the law of the overcoming of this economic and technical backwardness of the state economy, as compared with advanced capitalism. For this backwardness to be overcome there are needed, first, accumulation of material resources for expanded reproduction every year, from the state economy itself and from private, including peasant economy, and, secondly, such proportions in the distribution of labour in the state economy as will reproduce each year on an expanded scale a socialist sector based on definite equalizations of proportionality with private economy.

What is the meaning in *each separate year* of the increase in the optimum of accumulation and the development of production in the socialist sector?

The acceleration of the whole process, and so the shortening of the period of operation of the law of primitive socialist accumulation, which is a product of our socialist backwardness.

Does this not mean that the more successfully the law of primitive socialist accumulation develops its working, the more it undermines the condition of its own existence?

Quite correct, Comrade Goldenberg! The nearer we come to socialism, not the more but, from a certain moment onward, the less 'alienation' will there be, because there will be greater accumulation by the state economy from its own resources and exchange will be more equivalent than at the present time. Non-equivalence of exchange with petty *individual* production in agriculture will appear and intensify thereafter only on the basis of the growth of large-scale socialist and co-operative agriculture — *no longer as a result of the working of the law of primitive socialist accumulation, but as a consequence of the general economic superiority of large-scale production over small.*

The entire meaning of my opponent's argument can be summed up in an example like this. Comrade Goldenberg is present, let us say, at a congress of the commissions for combating illiteracy, and he says: 'Comrades, there is something "obviously absurd" at the basis of your work. If you were to increase illiteracy you would be acting contrary to our fundamental task. But if you reduce it, then you destroy, with every step in that direction, the very reason for the existence of your commissions'. After such a speech the orator who made it would probably be subjected to a medical examination to ascertain his mental state. But in a theoretical dispute they print quite similar 'crazy nonsense' in a serious journal without arousing any doubts, and they amuse themselves at the expense of the readers as though these were little children.

In his reply in No. 15–16 of *Bolshevik* Comrade Goldenberg, returning in one passage to the 'argument' we have just analysed, puts forward also a few ideas which we will stop to discuss quite briefly.

Comrade Goldenberg continues to accuse me of making bald abstractions when I counterpose socialism to capitalism, and also because of my alleged opinion that 'the study of the transitional period must be built up on an analysis of an *abstract* transitional period'. In actual fact I say nothing about any 'abstract transitional period'; on the contrary, I examine the Soviet economy, that is to say, a specific economy, and I examine it at a specific period of its development, that is, in the period when the state economy is overcoming its technical and economic backwardness as compared with advanced capitalism. And the law of this period (along with the law of value, rooted in the conditions of commodity

production) is also precisely the quite concrete law of primitive socialist accumulation, which constitutes the generalization of a mass of concrete facts from the life of our economy.

My principal opponent, Comrade Bukharin is, however, fully guilty of the crime which Comrade Goldenberg ascribes to me. His attempt to counterpose my ideas to his own comes down to a series of general dissertations about the transformation of the law of value into a law of proportionality of labour expenditure, while the distinctive features of the present period of our economy escape his analysis. No doubt Comrade Goldenberg must have noted that fact with sorrow when he read Comrade Bukharin's feuilletons.

Next, I must cause grief to Comrade Goldenberg by recalling the fact that the first volume of my book will be followed by a second, in which I shall examine, on the basis of a great deal of factual material, how the law of primitive socialist accumulation manifests itself within the state economy, how it operates on the borderlines between the state economy and private economy, and how that general economic equilibrium is established in our system which is reflected in the numerical balance sheet of our economy for the previous year. Then it will be a great deal harder for my opponents to combat my point of view than it is now, when they can invent arguments 'of a general character'. What I have offered up to now is only a general theoretical introduction to a concrete analysis of our economy, and not at all a theory of an 'abstract transitional period' because the material for such a theory is not yet available, our country being the only country where socialist construction is taking place, and being moreover a country which is not typical in its economic structure.

Comrade Goldenberg's statement that I do not provide in my theoretical introduction any concrete analysis of class relations in our country is formally correct. But I have already pointed out in my reply to Comrade Astrov that the law of primitive socialist accumulation in its general form is the law of the relation between the socialist sector of our economy and the entire economy of commodity production both inside and outside the country, just as the law of value, abstracting from its transformations—for example, the law of prices of production under capitalism—is the law of all commodity production in general, and manifests itself in the sphere of simple commodity production regardless of

whether we are concerned with the production and exchange of a middle peasant enterprise or the poorest of the poor peasant enterprises. That the law of primitive socialist accumulation, transformed into the conscious norm of the state's economic policy, and seen from the angle of distribution of the national income, must manifest itself differently in the relations of the state economy with *kulak* economy in the first place, with middle-peasant economy in the second place, and with the poor peasants in the third, is quite obvious. But I deliberately refrain from dealing in the first part of my work either with concrete examination of the production relations between the working class and the various strata of the peasantry (apart from isolated remarks) or with analysis of the economic policy of the Soviet state. It would be comic to raise to the level of principle objections to the arrangement of chapters in a particular book.

But the transfer to this plane of the polemic against me has a certain significance. My opponents persistently importune me to express myself on the question of the roads to *producers'* co-operation in peasant economy and the regularity of this process. I appreciate the burning desire of my opponents to hear even from an antagonist something about a subject the theoretical working-out of which has proved beyond their own powers. But would it not be more correct for them to speak the first word themselves? Since the time when I invited my critics, instead of expressing their 'faith' in this process, to provide even a little bit of 'knowledge' about it, not one theoretical work on this subject has been recorded in the book market. And that is not surprising. Marx observed rather acidly that nobody has yet thought of a method of catching fish in waters where they are not to be found—which in its application to our subject means that it is not possible to provide a theory of a process which has not yet begun on the mass scale, a process which has hardly begun to show itself.

While not wishing to engage in a dispute with Comrade Goldenberg about questions of economic policy, I want to make two points here which expose his complete surrender on questions connected with our theoretical dispute. As is customary in such cases, surrender is hidden by cheating and is given the appearance of an offensive.

I caught Comrade Goldenberg out in failing to understand the

law which I formulated,¹ which says that our state economy can accumulate four to five milliards, in accordance with the prospective five-year plan of the economy, only through the operation of the law of primitive socialist accumulation, because we have selling prices which are much higher than those that obtain abroad, and so a much less equivalent exchange with agriculture than in foreign countries. To this my critic replies: but prices are to be reduced nevertheless and the prices of industrial goods by 20 per cent. What a pitiful way of arguing! Where did I say that they are to be increased? I said that in the entire period of this accumulation they will be much higher than foreign prices—and that is the essence of the matter. We accumulate only on the basis of struggle against the world law of value, although the dimensions of non-equivalence gradually decline, which is the aim of our policy, to be attained precisely through accumulation.

Now to the second question. Why are we *obliged*, even under the rather minimal five-year plan drawn up by the State Planning Commission, to increase the fixed capital of industry during the five-year period by 10·5 per cent., that is, given our miserable bit of fixed capital, at a faster rate than this capital grows in capitalist countries?

Precisely because this or an even faster rate is dictated to our economy by the law of primitive socialist accumulation, as the regulator of economic life, and it is dictated in struggle against the world law of value. Because if the latter law had been operating freely, such an accumulation would be economically quite senseless, since Europe is already over-industrialized. Yet, from the standpoint of expanded reproduction in our socialist sector, such an increase is a most necessary prerequisite for the self-preservation of our entire system.

How is such accumulation possible? I pointed out to Comrade Goldenberg the change in the structure of the consumers' budget of the country as a result of the October revolution, with the abolition of the landlord class and the big bourgeoisie. However, the problem of adapting social demand to production on the basis of new proportions of accumulation and distribution of labour is decided in practice only through an economic policy *dictated* by the law of primitive socialist accumulation, as the law of self-preservation of the system, given our present relations with

¹ See *Bolshevik*, No. 15–16, 'Economic Notes', p. 74.

world capitalism. If our country were now to become bourgeois, such proportions of accumulation would not be demanded by economic necessity, and expansion of foreign trade would solve many of the problems which we can solve *only* by intensive accumulation and rapid industrialization.

Finally, Comrade Goldenberg's statement that there is nothing specific in the law of primitive socialist accumulation which is not known to bourgeois economics, and in particular that protectionism is well known to all capitalist countries, is a real pearl. In the first place the specific character of our economics changes the social essence of the role played by institutions which are similar to those existing under the bourgeois regime, the methods of economic policy and so on. Secondly, as regards our protectionism in particular, not to speak of the monopoly of foreign trade, he would be really blind who did not see and understand the following things. When a young capitalist country introduces protective tariffs, (1) the law of value continues to operate and reproduce within it none other than capitalist relations, with merely a different relation between native and foreign capital; (2) protectionism does not prevent but rather favours the import of capital into the country in question, thanks to the higher rate of profit which exists in it as compared with countries of older capitalist development; (3) protectionism does not stop the obtaining of foreign loans by the countries concerned which, in so far as they are allocated to productive purposes, are a means of increasing the internal capital of industry at the expense of foreign resources. In our country, on the contrary, protectionism and the monopoly of foreign trade safeguard the process of expanded reproduction of *socialist relations*, that is, of an economy which is in a state of hidden war with the economics of world capitalism, an economy which enters into the world division of labour in a way that is quite exceptional and unprecedented in the history of commodity economy, that is, on the basis of the monopoly of foreign trade, planned exports, and, what is still more important, planned imports. Under these conditions protectionism is not compensated by the importing of foreign capital, which does not desire to flow on a large scale into an economic system of a type alien to itself, and so the problem of accumulation presents itself to us in quite a different way than to any young capitalist country in the past or the present. Not to see the differences here between

socialist and capitalist protectionism, between the role of non-equivalent exchange here and there, and so on, means, more or less, the same as not to see the difference between the Soviet state system and the bourgeois state simply because we have a class court, a militia, an army, and so on.

What interests me in Dzh. Nagiyev's review, published in *Ekonomicheskaya Zhizn* for 6 June is not the sharply hostile tone, because I did not expect any other in the review columns of our press, but a substantial illiteracy which the editors of the paper have allowed to pass in Nagiyev's review. This illiteracy concerns the very important question of principle whether developed socialism will differ from complete communism, and it may mislead our student youth, on whom the ignorance of the reviewer may be imposed as the official viewpoint of Marxism and Leninism on the question at issue. In my lecture to the 'Proletarian Culture' organization on the subject of 'The Material Basis of Culture in Socialist Society', the following passage is to be found: 'By socialist society I shall mean a society in which classes still exist—at any rate two basic classes—the class of workers in socialist state economy, on the one hand, and, on the other, petty-bourgeois sections of the population, economically already fully subjected to planned economy, but nevertheless surviving as an independent class'. Regarding this passage the reviewer writes: 'It seems to us that such a childish mistake would not have been committed by any student in a workers'-faculty course. We have checked through nearly all the writings of Marx and Engels and there is not one of them where it is not said that under socialism and communism there will be no classes'.

Dzh. Nagiyev has wasted all this labour in checking texts, because there are things which have to be sought not so much in texts as in one's own head. If a man doesn't understand (1) what dialectics is in general (he often understands it the less the more often he mentions it) and (2) what role is played by terminology in designating one or other state of a dialectical process, then it will be of no benefit to such a man, when he wants to solve some problem which requires knowledge of these two things, to read Marx, Engels, and Lenin ten times over.

In a developed system of communist society there will neither be classes nor a state. This does not give rise to any disputes or

misunderstandings. But at the first or lower phase of communist society, though there will be no classes, though all the means of production will be socialized, nevertheless, in the system of distribution, bourgeois right will still remain and the institution of the state will not yet have been fully liquidated. On this last theme Lenin, in complete agreement on the point with Marx (*Critique of the Gotha Programme*), writes:

The state withers away in so far as there are no longer any capitalists, any classes, and consequently, no *class* can be *suppressed*.

But the state has not yet completely withered away, since there still remains the protection of 'bourgeois right', which sanctifies actual inequality. For the complete withering away of the state, complete communism is necessary.¹

And a little further on Lenin writes:

Consequently, for a certain time not only bourgeois right but even the bourgeois state remains under communism, without the bourgeoisie!

This may sound like a paradox or simply a dialectical puzzle, which Marxism is often accused of inventing by people who would not take the slightest trouble to study its extraordinarily profound content.

As a matter of fact, however, the remnants of the old surviving in the new confront us in life at every step, in nature as well as in society.²

To proceed. What is socialism, as distinguished from communism?

Lenin replies to this question: 'What is generally called socialism was termed by Marx the "first" or lower phase of communist society'.³ This means that under developed socialism the socialization of the means of production has been fully carried out and classes have been abolished, but there still remain survivals of bourgeois right and the bourgeois state. Developed socialism is, therefore, underdeveloped communism. What then is the position regarding the 'first or lower phase' of socialism? Will it exist, or will mankind, as a result of Dzh. Nagiyev's having 'checked' the texts and found nothing on this subject, leap directly from capitalism into developed socialism?

Remaining true to Marxism and, if you will, also to common sense, applying to socialist society the historical division into

¹ Lenin, *State and Revolution*, State Publishing House, p. 93. [*Selected Works*, 12-volume English edition, Vol. 7, p. 87.]

² *Ibid.*, p. 97. [Vol. 7, pp. 90-91.]

³ *Ibid.*, p. 96. [Vol. 7, p. 90.]

two phases which Marx and Lenin make in relation to communist society, and recognizing that 'remnants of the old surviving in the new confront us in life at every step, in nature as well as in society', I consider that developed socialism will be preceded by underdeveloped socialism which will contain 'remnants of the old', among which the first and foremost will be incompleteness in the socialization of the means of production, which will signify the existence of survivals of the petty-bourgeois mode of production and, consequently, the presence of two classes, workers and peasants, even though with an enormous preponderance of the former.

The inevitability of such a phase of development from capitalism to communism will be denied by no-one.

But what is it to be called? Can we call it socialism?

Undoubtedly we can, because socialism is the *predominant* mode of production in such a system. Otherwise we should not have the right to apply the term 'capitalism' to present-day Britain, Germany, America, and so on, because everywhere in these countries we have very significant survivals of the petty-bourgeois mode of production, and pure capitalism exists only in Marx's *Capital*.¹

Starting in my lecture from an endeavour to define exactly what meaning I ascribe to the term 'socialism' I declared: 'All questions connected with socialist society are extremely hard to examine concretely if we do not agree beforehand what period, what state of development of socialist society is being considered'.² And for this reason I warned my listeners from the start that in my lecture 'by socialist society I shall mean a society in which . . . still exist . . . petty-bourgeois sections of the population, economically already full subjected to planned economy . . .'

But Dzh. Nagiyev, hearing me speak of a petty-bourgeois class in socialist society, marked this up against me, not even as 'a paradox or simply a dialectical puzzle' but as a 'childish mistake', and through lack of dialectics in his own mind he set himself like a student to seek references in the writings of our teachers.

¹ It is another question whether socialism at this stage can be regarded as 'the first phase of communist society' or whether this phase will begin only after the total completion of the socialization of all the means of production. In other words, from what moment do these two expressions begin to mean the same thing? This is a debatable point, but a merely terminological one.

² E. Preobrazhensky, 'On the Material Basis of Culture in Socialist Society', p. 14. *Proletkult* Publishers.

Apparently the latter were obliged to leave traces in their works, in relation to all truths, even those as clear as 'twice two are four', especially for the benefit of such readers as Dzh. Nagiyev.

Moreover, he made a bad job of his search for references. He could have found these words relevant to the question that interests him, in Engels' letter to K. Schmidt: '. . . to everyone who took part in the discussion, socialist society appeared not as something undergoing continuous change and progress but as a stable affair fixed once and for all . . .'¹

But if complete socialization and the absence of classes is the *farther limit* of the evolution of socialist society and in the subsequent stages even the very term 'socialism' falls away, then, conversely, some survivals of the old must exist in socialist society in the previous period, so that it may progress beyond them. And among such survivals are incompleteness in the socialization of the means of production, survival of petty-bourgeois sections of the population, and a more important role played by the state than under developed socialism.

Thus, what Dzh. Nagiyev calls my 'childish mistake' which 'would have not been committed by any student in a workers'-faculty course' is a product of Marxist application of the word 'socialism', while his completely worthless review reveals, if not ignorance, then at best a feeble, student-like grasp of Marxism.

And most of the review sections of our periodicals are in the hands of Marxist experts of this order, or of reviewers whose aim is to please them. These people write eulogistic reviews of pamphlets and books which are often dreary and empty, provided that the authors of these works occupy responsible positions; they lavish praise on each other in their reviews; and in relation to books like this one of mine the scientific dishonesty of their criticism is accounted to them as political virtue.

For the intellectual life of our class and party, for our advance in the sphere of theory, such a state of affairs constitutes a very grave danger.

A few words more about the workers' and peasants' bloc, which all my opponents without exception accuse me of having designs upon. I have always stood, I stand, and I will continue to stand

¹ *Letters*, trans. Adoratsky, pp. 274-5. [Letter of 5 August 1890. Marx and Engels, *Selected Correspondence*, F.L.P.H. English edition, p. 496.]

for Lenin's conception, the Bolshevik conception, of the bloc and the 'bond', as it is set forth in our programme and in Lenin's own articles and speeches. Re-reading today both our programme and all the passages in Lenin which relate to this question, I cannot find the slightest differences of principle between my views and these documents, even in regard to details. Lenin taught us to be able to grasp at each moment the *most characteristic* thing in a changing situation and to seize the decisive link in the chain. In the period of the New Economic Policy he regarded commodity exchange with the countryside as this decisive link. The Party seized this link and did a great deal to set going a state and co-operative trading apparatus; and now it is faced with problems of industrial under-production and the growth of retail prices. Struggle against this evil, against the threat to the 'bond' from this quarter means struggle for a faster rate of industrialization. Struggle to accelerate the process of industrialization means struggle for more rapid accumulation in industry. From this the conclusion follows: those who first pointed to the danger of industrial under-accumulation were those who first thought out the question of the fate of the workers' and peasants' bloc in the new stage of our socialist construction. Revision of Leninism in the direction of 'Communist Narodism' will not increase the supply of goods to the countryside, will not bring retail prices down but, in so far as it is expressed in economic policy, will only drag out further the present period of under-production. Conversely, a timely call to lay hold of this link, the link of more rapid socialist accumulation, means fulfilling the actual behests of Lenin both in the sphere of theory and in the field of practice. Life will very quickly reveal who is in the right in this dispute of ours. I am profoundly convinced that the best of my opponents, among whom I place foremost Comrade Bukharin, will have cause again and again to blush for what they have written against my book.

What is the basic, or, so to speak, the original sin of my critics from the younger generation, and what is the error of the old Bolsheviks who encourage them, where understanding Lenin on the question of relations between the proletariat and the peasantry is concerned? It is that the youngsters quite seriously regard the tactical aspect of Lenin's views as the Leninist programme on the peasant question, while they regard the programmatic and general formulations as conjunctural and tactical slogans connected with

the circumstances of War Communism. The error of the older men, who know very well what Lenin's position was, from his entire activity, beginning with the struggle against the Narodniks in the 1890's and ending with the struggle against the Socialist-Revolutionaries and Mensheviks during and after the February and October revolutions, consists in their not taking into account the great danger of raising up, in a peasant country, a generation of youngsters who ideologically are a cross between Bolsheviks and Socialist-Revolutionaries.

Re-read *everything* that Lenin wrote on the question at issue. Before you is a proletarian revolutionary who is trying to steer the boat of the workers' dictatorship among the reefs and hidden rocks of the stormy ocean of world capitalism and the rough inland sea of petty-bourgeois elemental forces. He does not fear to make big concessions to the peasantry, in order not to disrupt the workers' and peasants' bloc, but he knows what the limits of these concessions are. These limits are dictated by his very purpose, which is to preserve the dictatorship of the proletariat. But my critics from the younger generation very naively take the concessions for the purpose, and build their understanding of the principled, programmatic aspect of Leninism entirely upon the statics of the present-day relation of class forces in one country, and not on the dynamics of the class struggle in the whole epoch of struggle between communism and capitalism on the world scale. Thereby they take a list towards what may be called a Slavophil, nationally-limited interpretation of Leninism, in contrast to its international and class essence. Against this deviation, against this revision of Leninism, which reflects the pressure on the proletariat of the 22 million peasant households in our country, it is necessary to fight hard. Necessary concessions to the middle peasantry in the field of economic policy and the practice of socialist construction, as mentioned in our Party programme, are one thing; quite another thing are concessions which encroach on our own, inalienable class territory, concessions in the field of Leninist theory, which can only facilitate and justify those concessions and manœuvres in the field of economic policy which Lenin himself regarded as incompatible with the fundamental purpose of our struggle.

In conclusion, two words of reply to those who consider my

analysis of the Soviet economy groundlessly optimistic. While, as we have seen, Comrade Astrov constructs a variant putting me in the dock 'under the sign of pessimism', my critics have much more often brought the opposite charge against me, and have done this sincerely, without any aim of discrediting me politically. To these objections I can reply briefly with the following observation. In my work I try to give a theoretical analysis of the development of the Soviet system of economy. This development is possible only provided that inside the country the development of the state sector proceeds more rapidly than that of private economy, and, of course, that from outside we are not stifled by world imperialism. From the standpoint of the present day my analysis may seem too optimistic, but it is different if you take the *line of development for a whole period*. If our state economy develops with sufficient rapidity on the basis of its inherent tendencies, then things will proceed in the direction of the transformation of the Soviet economy basically as I have set forth in my book. I try to provide a theory of our development towards socialism. Thereby I decline to provide a theory for the alternative variant, that is, a theory of our dissolution in commodity economy, a theory of the downfall of our system. A social science which 'gazes indifferently on good and evil' does not exist. Least of all are Marxism and Leninism such sciences, being as they are, in the last analysis, merely guidance to action for the revolutionary proletariat.

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No attempt has been made to record every occurrence of such terms as 'law of primitive socialist accumulation' and 'law of value,' which are what virtually the whole book is about. It is hoped that the selective entries provided will help to point the way to the main heads of discussion.

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