



Department of Open & Distance Learning

Punjabi University, Patiala

Class : M.A. I (Economics) Semester : 4
Paper : I (Political Economy of Development) Unit : I
Medium : English

Lesson No.

- 1.1. : Marxian Analysis of Capitalism
- 1.2. : Capitalist Production Relations in Industry and Agriculture.
- 1.3 : Evolution of Economic Planning and Forms of Planning.
- 1.4 : Planning and Market Mechanism under Socialism and Capitalism.
- 1.5 : Nature and Process of Primitive Accumulation.
- 1.6 : Process of Accumulation under Capitalism and Socialism.
- 1.7 : Process of Reproduction in Capitalist and Socialist Societies.

Department website : www.pbidde.org

MARXIAN ANALYSIS OF CAPITALISM

Central to Marx's theoretical work on economic studies was his attempt to lay bare the laws of motion of the capitalist mode of production. Marx wrote hardly anything on pre-capitalist or post-capitalist societies. Capital-wage labour contradiction was central to his study of the capitalist mode of production. In developing his analysis of the process of capital accumulation and the crisis of accumulation, capital-wage labour contradiction remains running through. Remaining true to his materialist conception of history, Marx studied the capitalist mode of production also in a historical context, i.e., it was studied as a mode of production which comes into being, develops and ultimately is ridden with its own internal contradictions resulting into a crisis. The crisis then becomes the basis for its transcendence by a socialist mode of production. Capitalism, therefore, has a historically transitory character. Two points need special mention in the Marxian analysis of capitalism. One, Marx attributes historically progressive role to capitalism vis-a-vis pre-capitalist societies. Capitalism led to a historically unprecedented expansion of the productive forces : it led to an enormous increase in international trade and the creation of world market. Two, Marx considered capitalism as it had developed by the later half of the nineteenth century as a fetter on the further development of the productive forces. Therefore, his analysis of capitalism and its contradictions was aimed at overthrowing it. His off-quoted lines, "The philosophers have only interpreted the world in various ways, the point, however, is to change it", sums up also his approach to the study of capitalism.

MAIN CONCEPTS OF MARXIAN POLITICAL ECONOMY

The distinguishing feature of the capitalist mode of production as compared to all earlier pre-capitalist modes of production is that it is a system of generalised commodity production. Some level of commodity production had existed even in some of the pre-capitalist mode of production but it is only under capitalism that it grows into generalised commodity production to the extent that human labour-power also becomes a commodity. Commodity form of production is, therefore, the economic cell-form of capitalist production. Any analysis of capitalist production, consequently, must start with an analysis of commodity.. From an analysis of commodity, we can develop the other necessary concepts used in the Marxian analysis of capitalism.

Commodity

Commodity has a two-fold character. It has a use-value and it has an exchange

value. A commodity is a thing that satisfies some human want or need. Its ability to satisfy a want or need is its use-value. The utility or use value of a given thing is determined by his physical and chemical properties and it is realised in its consumption for production of personal needs. The use-value of a commodity is distinguished by two elements. First, it is commodity, because of its utility as a thing which passes from the person to some other person, whose wants it satisfies. If the producer uses the product of his labour himself, it is not a commodity. So, the use-value of a commodity from one person to another is effected by purchase or sale. This is the other factor in the transformation of a product of labour into a commodity. If the transfer of use-values from one person to another does not take "the form of purchase or sale then we are not dealing with commodities and commodity relations. "The product of the labour of a serf is handed to his feudal-lord as rental-rent, without purchase or sale, so it is not a commodity.

Exchange Value and use Value of the Commodity

When a commodity is brought and sold in the market it is found that it can be exchanged for other commodities in a specific ratio, i.e., it has an exchange-value. The exchange-value takes the form of a ratio in which the use-value is exchangeable for another. So, if 1 kg. of coffee is exchanged for 4 kg. of sugar, it can be said that the exchange-value of 1 kg. of coffee is 4 kg. sugar.

Use-value and exchange value are two aspects of a commodity. The use-value is its material aspect and the exchange value its social aspect. Every commodity must have both use value and an exchange value. It must have a use value or else nobody would buy it. It would consequently be unsalable and would, therefore, have no exchange value precisely because it has no use-value. On the other hand, every product which has use-value does necessarily have exchange value. Such a product becomes a commodity and it has an exchange value, if it goes through the exchange-process before it is finally used. Since commodities are exchanged, i.e., compared with one another, they must all have something in common; something which makes it possible to commensurate different commodities. This commensurability cannot be based on the chemical, physical or other natural properties which make up their utility, their use-value. The use-values of commodities are not necessarily comparable in quality or quantify. But if we disregard the use values of the commodities; disregard the different kinds of concrete labour that has produced them, we will find that they do all have one thing in common-they are all the products of labour. As the products of the labour they will have value. The exchange value is merely a form of the value of a commodity.

So, a commodity had two properties : use-value, which satisfies human wants and exchange-value which is the abstract labour crystallised in it. Use-value reflects the difference between commodities, value, their utility. The use value reflects man's attitude to the thing itself and is realised in the process of consumption and value is an expression of the relations between the commodity products and value is realised in the process of exchange.

Dual Nature and the Labour contained in Commodities

Commodities are product of labour and their dual nature is, therefore, due to the dual nature of the labour contained in them. Labour in man's purposeful effort in the creation of a specific article, or in obtaining a specific useful result. All labour has a definite aim, uses specific objects and means of labour, involves specific results. So, there is difference between the labour of a miner, a smelter, or a baker, etc. Labour power spent with a definite aim is concrete labour.

Concrete labour as the creator of useful thing is a general historical category and does not depend on the social form of production. Different kinds of concrete labour are not comparable, just as the value created by different kinds of a labour cannot be compared with one another. Yet no matter how much they differ, they all have one thing in common, they all are expenditure of human labour power, i.e., an expenditure of human energy, the energy of man's brain, his muscles, nerves etc. The expenditure of human labour, as such, involved in any concrete labour process was called abstract labour by Marx. Abstract labour forms the value of the commodity. As crystallised abstract labour, that its, as embodied value, commodities are qualitatively alike, and therefore, they are quantitatively commensurable.

Abstract labour is a historical category, which applies only to commodity production. Naturally, before the advent of commodity production the labour process also involved an expenditure of human energy. But before the emergence of individual independent owners in the social provision of labour, producers did not have to compare their labour expenditure, production was natural, i.e. the articles produced were distributed among the members of the group and were not commodities.

In commodity production, however, when individual independent producers confront each other in the system of the social division of labour, the exchange of the products of their labour by buying and selling becomes a vital necessity. So the expenditure of labour in its physical sense acquires a definite social significance, it becomes the basis for comparing different commodities, the form of an exchange of commodities.

Under the social division of labour, each producer's labour is tied up with the, labour of all producers. It is necessary component of the labour spent by society to satisfy its wants.

As a component part of the labour of the whole society, each producers's labour is social, i.e., it is a social labour. But in a commodity production, based on private ownership or the means of production, the labour of the producer is in fact private labour. The social character of private labour is concealed, and it only reveals itself in the market, where commodities are exchanged. When he sells the products of his labour, the producer discovers that his labour is needed by society, that it has a social character. Hence, the social character of the labour of private producers is

manifested through the reduction of different kinds of concrete labour to abstract labour. Abstract labour is a historical form which social character of labour manifests itself in commodity production.

Thus, the social division of labour makes labour social, while the private ownership of the means of production makes it directly private. These two properties of labour are deeply contradictory. The contradiction between the social and private character of labour is basic contradiction of commodity production on the private ownership of the means of production. While the social division of labour and the social character of labour which evolves from it make the co-ordination of the activities of separate producers necessary. The private character of labour prevents co-ordination in the development of separate establishment. The interaction of these two opposing tendencies gives rise to the form of development which is typical of commodity production based on private ownership, balanced proportions, without which the development of social production is impossible, are established only fleetingly in condition of the sharp constant competitive struggle and anarchy in production.

Size of Value

Individual producers spend different quantities of labour time on the production of given commodities, according to the conditions under which they work. Obviously, the value of a commodity can not be defined in terms of labour time spent on any individual article seeing that it is different in each case. The different individual expenditure of labour are reduced to the socially necessary labour in the market. From a social view point each producer spends an average of socially necessary labour-power, so it is presumed to use an average necessary socially necessary labour time for the production of his commodity. According to Marx : "The labour time socially necessarily is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time."

The average, social conditions of production are those in which the bulk of the commodities of given kind are produced in any given industry. The labour expenditure in this industry will determine the size of the value of the commodity.

ORIGIN OF SURPLUS VALUE AND THE WORKING OF THE CAPITALIST PROCESS

In order to discover the origin of surplus value, it is first of all, necessary to analyse the value of the commodity labour power or the capacity of labour. It is the aggregate of those mental and physical capabilities existing in a human being which can be exercised whenever an individual produces a use value of any description. Here we must make the distinction between labour power and labour because it is labour power which is commodity and not labour itself. Labourer is free to sell or not to sell his labour-power, according to his capacity to work. Though this freedom of the labour is purely formal in the sense that unlike the slave and the serf who were in a personal bondage to the slave-owner or feudal-lord, the labourer is not in a personal bondage to the capitalist. It is only the economic necessity that compels

the labourer to sell his labour power. This necessity arises when the labour is deprived of the means at production and the means of subsistence, so that he can earn his means of subsistence only through the sale of his labour-power. The value of labour-power is determined by the socially necessary labour time to produce the means of subsistence for the labourer and his family. The value of the means of subsistence includes the following :

- (i) The value of the means of subsistence which are necessary for meeting the human need of labourer for survival and work, i.e., food, clothing, shelter, etc.
- (ii) The value of the means of subsistence necessary for satisfying the social and cultural wants of the worker which, in turn, are dependent on socio-cultural and historical development of society.
- (iii) The value of the means of subsistence necessary for the maintenance of the members of the worker's family.

Now let us see, how the surplus value is carried.

The capitalist comes into the market with money and buy machinery, materials and labour-power. He then combines these in a process of production which results in a certain mass of commodities which are again thrown upon the market. Marx assumes that the capitalist buys, what he buys at their equilibrium values and sells what he sells at its equilibrium value. And yet at the end he has more money than he started with. Somewhere along the line more value, or surplus value, has been created. How is this possible ?

It is clear that surplus-value cannot arise from the mere process of circulation of commodities. If everyone were to attempt to reap a profit by rising his price, let us say by 10 per cent, what each gained as a seller he would lose as a buyer, and the only result would be that the material entering into the productive power cannot be the source of surplus value. The value which the materials have at our set is transferred to the product at the conclusion, but there is no reason to assume that they possess an occult power to expand their value. The same is true, though perhaps less obviously, of the buildings and machines which are utilized in productive process. What differentiates building and machinery from materials is the fact of the former transfer/their value to the final product slowly, that is to say, over a succession of production periods instead of at once as in the case of materials it is of course, true that the materials and machinery can be said to be physical productive in the sense of labour working with them can turn out a large product than labour working without them, but physical productivity in this sense must under no circumstances be confused with value productivity. From the standpoint of value there is no reason to assume that either materials or machinery can ultimately transfer to the product more than they themselves contain. This leaves shortly one possibility, namely that labour power must be the source of surplus-value which is created in the production

process.

As we have already seen, the capitalist buys labour-power as its value, that is to say, he pays to workers as wages a sum corresponding to the value of the worker's means of subsistence. Let us suppose that this value is the product of six hours' labour. This means that after production has proceeded for six hours the work has added to the value of the materials and machinery used, a value which we know reappears in the product, an additional value sufficient to cover his own means of subsistence. If the process were to break-off at this point the capitalist would be able to seal the product for just enough to reimburse himself for his outlays. But the worker has sold himself to the capitalist for a day and there is nothing in the nature of things of dictate that a working day shall be limited to six hours. Let us assume that the working day is of twelve hours. Then in the last six hours the worker continues to add value, but now it is, value over the above that which is necessary to cover his means to subsistence. It is, in short, surplus-value the capitalist can pocket for himself.

To put the argument in simple manner, in a day's work the labourer produces more than a day's means of subsistence. Consequently, the working day can be divided into two parts : necessary labour and surplus labour. Under conditions of capitalist production the product of necessary labour accrues to the labourer in the form of wages, while the product of surplus labour is appropriated by the capitalist in the form of surplus value. It is to be noted that necessary labour and surplus labour as such are phenomena which are present in all societies in which the productiveness of human labour has been raised above a certain very low minimum, that is to say, in all but the most primitive societies. Furthermore, in many pre-capitalist societies (e.g. slavery and feudalism) the product of surplus labour is appropriated by a special class which in one way or another maintains its control over the means of production. What is specific to capitalism is, thus, not the fact of exploitation of one part of the population by another, but the form which this exploitation assumes, namely, the production of surplus-value.

From the foregoing analysis it is apparent that the value of any commodity produced under capitalist conditions can be broken down into three component parts. The first part, which merely represents the value of the materials and machinery used up, "does not, in the process of production, undergo any quantitative alteration of value" and is, therefore, called 'constant capital'. It is represented symbolically by the letter C. The second part which replaces the value of labour, does in a sense undergo an alteration of value in that "both reproduce the equivalent of its own value, and also produce an excess." This second part is, therefore, called 'variable capital' and is represented by the letter V. The third part is the surplus-value itself, which is designated S. The value of a commodity may, in keeping with this notation, be written in the following formula :

$$C + V + S = \text{Total value}$$

This formula is not limited in its applicability to the analysis of the value of a single commodity but can be directly extended to cover the output during a certain period of time, say a year of an enterprise, of any group of enterprises upto and including the whole economy.

We would briefly touch upon three ratios which are derived from above and which are of crucial importance for the Marxian analysis of capitalism.

The first ratio is called the rate of surplus-value and is defined as the ratio of surplus value of variable capital, and is denoted by

$$s = \frac{S}{V} \text{ Rate of Surplus value}$$

The magnitude of the rate of surplus-value is directly determined by three factors : the length of the working day, the quantity of commodities enter into the real wages, and the productiveness of labour. The first establishes the total to be divided between necessary and surplus labour, the second and third together determine how much of this time is to be counted as necessary labour. The rate of surplus-value may be raised either by an extension of the working day or by a lowering of the real wage or by an increase in the productiveness of labour, or, finally, by some combination of the three movements. In case of an increase in the length of the working day, Marx speaks of production of absolute surplus value, while either a lowering of the wage or an increase of productivity, leading to a reduction of necessary labour, results in the production of relative surplus value. The second ratio to be divided from the $C + V + S$ is a measure of the relation of constant to variable capital in the total capital production. Marx calls this relation of organic composition of capital. This can be expressed as :

$$q = \frac{C}{V} = \text{Organic composition of capital}$$

In non technical language the organic composition of capital is a measure of the extent to which labour is furnished with materials, instruments and machinery in the production process.

The rate of real wages, the productivity of labour, the prevailing level of technique (closely related to the productivity of labour) and the extent of capital accumulation in the past, all enter into the determination of the organic composition of capital.

The third ratio and the most important to the capitalist, is the ratio of surplus value to total capital outlay and is called the rate of profit. If we designate this by r , we have

$$r = \frac{S}{C+V} = \frac{S/V}{C/V+1} = \frac{\text{Rate of surplus value}}{1+\text{Organic composition of capital}} = \text{rate of profit}$$

The rate of profit determines the rhythm of capital accumulation, the possibility of prosperity or crisis in a capitalist economy.

ESSENCE OF CAPITALIST CRISIS

Capitalist growth itself creates the conditions for crisis in a capitalist production. The accumulation of capital is a deeply contradictory process. The accumulation of capital on one hand, expands and develops, the productive forces and on the other hand, by developing production, capitalism digs its own grave and nurtures the grave-digger, the revolutionary proletariat. The necessity to survive and grow big impels the capitalist to expand production on the basis of the accumulation of capital, its concentration and centralisation. Growing capital while expanding and intensifying the exploitation of hired labour introduces better and better-means of production and concentrates them at large enterprises. The means of individual labour now becomes the means of collective, social production, while the degree of socialisation of labour grows. Hired labour, as well as the means of production, are concentrated increasingly at bigger and bigger concerns. The growth of production goes hand in hand with the extension of the social division of labour. Enterprises become more and more specialised. Their mutual links grow, and the branches of economy become increasingly independent. Countries that were once isolated are drawn into the world capitalist economy. The commodities produced by society, once product of isolated enterprises, become products of social labour. Production becomes a social process. The results of production continue to be privately appropriated. The material wealth does not belong to its real creators-the working people but to the exploiting minority. The private capitalist form of appropriation (private capitalist property) clashes more and more with the social character of production. Capitalist production relations enter into this conflict with the productive forces and this fetter their further development. This historical tendency of capitalist accumulation and its crisis was described by Marx as follows : "Centralization of means of production and socialisation of labour at last reach a point where they become compatible with their capitalist integument. This integument is burst as under. The knell of capitalist private property sounds. The expropriators are expropriated."

The contradiction between the growing socialisation of the production process and its private appropriation ultimately results in a crisis of capitalist production. This crisis manifest, in either of the three forms :

- (i) The decline in the average rate of profit.
- (ii) The over-production of capital or consumer goods.

- (iii) The under-consumption of the masses.

These three forms may interpenetrate or overlap each other in a specific conjuncture of the capitalist economy. The growing organic composition of capital may either express itself in the decline of the rate of profit, the disproportionality between the different departments of production or increasing unemployment leading to under consumption.

NATURE OF MODERN CAPITALIST OWNERSHIP

In the 19th century and before, individual capitalist ownership was typical. In capitalist countries today, the majority of enterprises are still in the hands of individual capitalists.

Naturally, these enterprises are very enormous in size, output, the number of workers employed, the value of the productive assets; etc., There are small, medium and large individual capitalist enterprises. But the small and medium enterprises play a relatively minor role in capitalist production. At present, the lion's share of capital and production in capitalist countries is concentrated in the hands of joint-stock companies. The concentration of production, the development of joint-stock companies, led to the emergence of a qualitatively new form of capitalist ownership-monopoly property. At present, the monopoly is the dominant form of capitalist ownership. Under pre-monopoly capitalism small capital was generally ousted by big capital through the financial ruin of their enterprises. This process has increased in intensity. There is also another method by which the monopolies get rid of small enterprises by their inclusion in the monopoly sphere. Although there appears to be a steady growth in the number of small, apparently independent enterprises, the vast majority actually produces semi-finished products on order for the monopolists.

In very capitalist countries the state owns and controls a variety of property, including enterprises, land and forest, armaments and war materials, state budget, funds and deposits in state credit institutions. All this is state property.

In essence, there is no real difference between the property of the capitalist state and the property of private capitalist. It also alienates the labour force from the means of production and exploits with its capital. Engel pointed out that the bourgeoisie state is "the ideal personification of the total national capital." In modern conditions state property is as regards its class essence, the total property of monopolies. It is a state monopoly properly. At a time when the world situation is deteriorating and growing more complicated for monopoly capital, state economic programming is called into to reconcile and co-ordinate the interests of individual monopolies with the common interests of the monopoly bourgeoisie, to help perpetuate capitalism as a mode of production.

State economic programming plays a definite role in the objective economic development process. However, one should not over estimate its efficiency. The

programming of economic activity organised and financed by the state, can temporarily increase growth rates, stimulate new investments, increase exports of commodities and capital and improve the country's balance of payments. But it cannot do away with the disproportion between branches or competition among industrialists. For although, economic programming introduces some elements of planning into spontaneous production the effect is limited since anarchy is endemic in capitalist production, result of the contradictions of modern capitalism, and state economic programming is unable to remove them.

MARXIAN PERSPECTIVE OF THE FUTURE OF CAPITALISM

Capitalism is ridden internally with an insoluble contradiction, the contradiction between the socialisation of the production and the private appropriation of the surplus produced by the use of these productive forces. This contradiction creates the objective and subjective condition for crisis in a capitalist economy. The crisis of capitalism becomes general embracing all spheres of life in capitalist society (economy, politics, ideology) and all countries in the world capitalist system. The general crisis of capitalism develops over a whole historical period. The disintegration and revolutionary collapse of the capitalist system on a world scale has been the result of a general crisis of a world capitalism.

The general crisis of capitalism began during the first World War. The War weakened the common front of imperialism, undermined the foundation of the world domination by monopoly capital, and exacerbated the class contradictions of bourgeois society to the utmost. In these conditions the weakest link in the capitalist chain was shaped by the victory of the socialist revolution in Russia in 1917. This marked a radical turning point in the history of mankind.

Three features are typical throughout the development of the general crisis of capitalism.

First, there is the contradiction between labour and capital, between the monopolies and the majority of the nation. In their pursuit of maximum profits and monopolies intensify labour to utmost, purchase labour-power at the lowest monopoly prices for the work and taxation. Political rights are curtailed more and more, the working class and all working masses and the class struggle intensifies. Second, there is the contradiction between the peoples of the less developed countries and the imperialist power that exploit them. The exploitation of the working people in the economically less developed countries is one of the source of super profits made by the imperialist power. The imperialists have to build factories, railways; industrial and commercial centres to exploit these countries. This leads to the development of national proletariat and national intelligentsia to political awareness and growing resistance from the working people and part of the national bourgeoisie. The struggle for national liberation, against all kinds of colonialism is taking an ever sharper forms. Third, there are contradictions between imperialist powers. In their scramble

for markets, raw material sources and investment areas, there are clashes between the interests of monopolies and big monopoly groups in different countries. This rivalry grows into a struggle for spheres of influence between imperialist states. The intensification of the conflict between the classes of bourgeoisie society; between monopoly groups and between imperialist countries inevitably aggravates the economic and political instability of the capitalist system, undermines imperialism from within and deepens the general crisis of capitalism.

The changes in the erstwhile Soviet Union and other East European countries in the decade of eighties does not mean failure of Marxism or- success of capitalism. These revolts were results of the wrong application of the Marxist theory. Over the long period of socialist regime, a strong group of bureaucrats emerged and the workers were alienated from the state power. The people were required to perform heavy duties and in turn were not given proper facilities. On the other hand, the class of bureaucrats used to enjoy various facilities and did very little work. This enraged the general public against the state machinery and this outrage was used by counter revolutionaries against the socialist system and against communist party. But this does not brighten the future of capitalism. The prevailing conditions and contradiction of capitalism would again compel the capitalist system to go for ever and a new system would definitely emerge.

CAPITALIST PRODUCTION RELATIONS IN INDUSTRY AND AGRICULTURE

Man has advanced slowly at first and then at an ever-increasing tempo, from slavery civilization by improving his tools-his instruments of labour. With this improvement his labour became more productive and his social relations more complex. Thus, according to Marx, “the social relations within which individual produces, the social relations of production, are transformed, with the change and development of the material means of production, the productive forces. The relations of production in their totality constitute what are called the social” relations of society, specifically a society at a definite stage of historical development, society with a peculiar, distinctive character. Ancient society, feudal society, bourgeoisie society, are such totalities of production relations, each of which at the same time denotes a special stage of development in the history of mankind.”¹

The rise and growth of commodity production, that is, production for exchange, is the most essential feature which distinguishes civilised society from primitive society. In this sense, “civilisation is that state of development of society,” wrote Engels, “at which division of labour, the resulting exchange between individuals and commodity production, which combines the two, reach their complete unfoldment and revolutionise the whole hitherto existing society.”² With the change and development of material means of production, the production forces, man’s labour became more productive and with this came the emergence and expansion of surplus production, the basis of class division to society and of commodity reproduction. In Marx’s views, “the wealth of those societies in which the capitalist mode of production prevails, presents itself as an immense accumulation of commodities.”³

CAPITALIST MODE OF PRODUCTION**Historical Mission**

As compared to pre-capitalist formations, the capitalist mode of production has a progressive role in the socio-economic life of a society, although like other, its capitalist social formation has only historical transient character. The mission of capitalism, that is, its historical role in the socio-economic development, is characterized by an increase in the productive forces of society-economic development, and the socialisation of labour. Both these facts manifest themselves in extremely diverse process in the different branches of the national economy.

In the process of socialization of labour by capitalism, the production for oneself is transformed into production for the whole of society, former scattered production is replaced by concentration both in industry and in agriculture, forms of personal

dependence are eliminated and the labour of the hired workers is utilized, the mobility of population increases, process towards large scale production develops, and the importance of large industrial belts, the centres of concentration of socio-economic and political power, is enhanced. All this cannot but lead to a profound change in the very character of the producers.

Marx and Engels, the authors of the Communist Manifesto, while outlining the progressive historical mission of capitalism, have mentioned that “the modern bourgeoisie society has sprouted from the ruins of feudal society and has not done away with class antagonism. It has but established new classes, new conditions of oppression, new form of struggle in place of the old ones. Our epoch of the bourgeoisie possesses, however, this distinctive feature. It has simplified the class antagonism. Society as a whole is more and more splitting up into two great hostile camps, into great classes directly facing each other, bourgeoisie and proletariat.”⁴ The modern bourgeoisie is itself the product of long course of development of a series of revolutions in the modes of production and exchange. The bourgeoisie, whenever it has got the upper hand has put an end to all feudal, patriarchal, idealistic relations. It is pitilessly torn as under the motely feudal ties that bound man to his ‘natural supervisors’, and has left remaining no other nexus between man and man than naked self-interest, the callous cash payment. It has resolved personal worth into exchange value. In one word for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal expectation. The bourgeoisie has stripped of its halo every occupation, hitherto honoured and looked up to with reverent awe. It has converted the physician, the lawyer, the priest, the poet, the man of science, into its paid wage-labourers. The bourgeoisie has torn away from the family its sentimental veil and has reduced the family relations to a mere money relations. The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with the whole relations of society. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions are swept away. The need of a constantly expanding market is for its products, chases the bourgeoisie over the whole surface of the globe. It makes nestle everywhere, settle everywhere, establish connection everywhere. The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. National one-sidedness and narrow-mindedness become more and more impossible and from the numerous national and local literatures, there arises a world literature. The bourgeoisie by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian nations into civilization. In one word, it creates a world after its own image.

At the time of the emergence of capitalism, its progressive historical role consists in eliminating the pre-capitalist, production relations and substituting in their place, the relations of capital production. Thereafter, the capitalist mode of production, on the one hand, develops the productive forces and helps in the socialisation of the bourgeoisie private party, the basis of capitalist production. At this stage, the capitalist

relations to production become reactionary and an obstacle in the further development and expansion of social production.

Emergence of Capitalism

As Marx observed, the economic structure of capitalist society has grown out-of the economic structure of the feudal society. The capitalist commodity production arises and develops within the womb of feudal society and helps in disintegrating that society. Before the bourgeoisie revolution capitalism has gone far in building its system in the economic sphere of feudal society. In Preobrazhensky's words : "Capitalism was able to pass through the periods of primitive accumulation the age of absolutism in politics and of simple commodity production and feudal serfdom relations in the economic sphere."⁵

Some of the historical methods of primitive capitalism accumulation were : plunder of non-capitalist forms of economy of petty production of peasants and rural artisans; plunder of newly discovered territories through the colonial policy of world trading countries; plunder through usurious rate of interest on the money lent to the ruined small scale rural producers; plunder of petty production through state-taxes and the system of state loan; the system of unequal exchange through the market. In addition to these methods based on both non-economic pressure and economic basis, the capitalist accumulation basis itself on the exploitation of the workers by appropriation of surplus value. In a capitalist society, competition compels every capitalist on pain of ruin to expand production. This expansion of capitalist production is possible only through accumulation, which is rated by appropriation of surplus-value through the exploitation of the workers, and by converting different forms of means of production into capital. Under the capitalist mode of production any sum of money which does not serve the purpose of direct consumption is transformed into capital, into a begetting surplus-value.

The state played its historical role in the process of primitive capitalist accumulation. The methods of this accumulation were based on brute force. The power of the state was employed to hasten the transformation of the feudal mode of production into the capitalist mode and to shorten the transition. The 'normal' capitalist accumulation is an increase in values created on the basis of expanded reproduction within the system itself. The exploitation of labour-power, through appropriation of both absolute and relative surplus value, is the principal source of this accumulation. The capitalist state helped and stood guard over capitalist accumulation. The capitalist accumulation, necessary for the emergence and development of capitalist mode of production, is forced burden on labour.

Main Features : Essence and Manifestation

Three fundamental characteristics sum up the essence of capitalist mode of production : employment of wage labour; (generalised) commodity production; and accumulation of capital. "The degree at which the commodity form of labour-power is developed is an indication of the degree to which capitalism is developed."⁶

Moreover, as Lenin said, "Once social economy is based on the division of labour and commodity form of the product; technical progress must inevitably lead to the strengthening and deepening of capitalism."⁷ In general sense, "by capitalism is meant that stage of the development of commodity production at which not only the product but human labour-power, itself becomes a commodity. Thus, in the historical development of capitalism two features are important : (i) the transformation of the natural economy of direct the producers into commodity economy, into capitalist economy, and (ii) the transformation of commodity economy into capitalist economy.

In order to produce and distribute under capitalism two things; means of production and wage-labour, are essential. Since in a capitalist society, the basic means of production are under the private ownership of the capitalists, therefore, the majority, the working masses, are deprived of any significant ownership of means of production. The capitalist class lives on unearned income-the surplus-value appropriated from the work of wage-workers and the workers sell their labour-power in order to earn their livelihood. As for distribution in a capitalist society, it is not those who work the most get the largest share, but those who own the most in the form of means of production.

In its reproduction process, the capitalist production develops the productive forces of society and at technical level the capitalist society is higher than others. In the technical progress under capitalism, which entails the specialization to different parts of production and its socialization, machines play a very key role. With the introduction of machinery in this production process, Marx observed, a "radical change in the mode of production in one sphere of industry involves a similar change in other sphere and then the revolution in the modes of production of industry and agriculture made necessary a revolution in the general conditions of the social process of production, i.e., in the means of communication and transport."⁸

The capitalist production based on modern machines is, normally, large-scale production, because large-scale production is superior to small-scale production, in both industry and agriculture, in regard to the use of machinery. The large-scale capitalist production based on social division of labour and employment of machinery is not free from its social conflicts and contradictions. But inspite of this, in the capitalist economy based on the system of wage-labour and the commodity form of production, the development in the technical base of production leads to the strengthening of capitalist production.

In a country, where commodity production is poorly developed or not developed at all, the population is almost exclusively agricultural (rural). With the expansion of commodity production (in both industry and agriculture), historically, ever-growing part of the population from agriculture gets divorced. About the migration of rural (agricultural) population to urban (industrial and commercial) centres, two different processes to development of capitalism, Lenin emphasized, must be distinguished : (i) the development of capitalism on "new lands". The first process expresses-the development of established capitalist relations : the second, the rise

of new capitalist relationship in new territory. The first process means the development of capitalism in depth, the second, in breadth. Obviously, to confuse these two processes must inevitably lead to a wrong conception of the processes which diverts the population from agricultural to commercial and industrial occupation." In spite of some variations in certain demographic conditions, in the general, as Lenin remarked, "One cannot conceive the capitalism without an increase in the commercial and industrial population at the expense of agricultural population."⁹

The growth and expansions of capitalist production first and mostly concentrates in the urban centres. Apart from other consequences, it results in the growth of the urban population at the expense of the rural population and this migration loosened the old patriarchal family tie. Through absorption by the towns of the best, the most energetic and most intelligent workers by depopulation of the countryside, the bourgeoisie subjects the countryside to the rule of the towns. Alongwith this, capitalist has given rise to a specific form of migration of labour force among nations. This takes place because the more developed industrial countries, introducing machinery on a large-scale and ousting the backward countries from the world market, raise wages at home above the average rate and thus attract workers from the backward countries. In the foreign lands, the immigrant workers are exploited by the capitalists in the most shameless manner.

The development of the capitalist mode of production presupposes and also implies the separation of agriculture from industrial enterprises. The development of commodity economy takes the shape of the separation from agriculture to one branch of the industry after another and this happens in connection with the formation of the entrepreneurial relations in agriculture and the differentiation of the peasantry. On the other hand, in this process large-scale machine industry creates conditions for the wage-labour (in industry and agriculture) to come closer : it introduces commercial and industrial way of life in rural areas; it expands market for wage labour, creates mobility of the working population; it introduces modern farm implements in agriculture.

It is historical fact that both in a pre-capitalist and capitalist society, the "towns exploit the countryside." With the development of capitalism this happens, Lenin said, "by taking the best labour force away from the farms and absorbing an ever greater portion of the wealth produced by the rural population, whereby the rural population is no longer able to return to the soil that which is taken from it."¹⁰ The precise assessment of this fact can be made by examining the exchange relations and exchange price between agriculture and industry.

The chief factor in the creation and expansion of a home market for capitalism is the growth of social division of labour in the process of transformation of the natural economy. The nature and extent of expansion of home market depend on the degree of capitalist development of the economy. The expansion of home market involves three aspects : first in a society of developed commodity economy and capitalism; secondly, machines and as a result of large-scale production create a home market for

capitalism, a market for means of production and a market for labour power; and thirdly, the information of a home market of production and a market for capitalism owes less to articles of consumption than the means of production. It is only this sense as Lenin observed", that the degree of development of capitalism in the country."¹¹

Since unevenness of development is inevitable in capitalism, one branch of production (either capital or consumer goods production) or one sector of production (either industry or agriculture, outstrips the other and consequently it, "strive to transcend the bounds of old field to economic relations." Out of this grows the necessity of seeking a foreign-market for capitalism. It is impossible to "conceive a capitalist economy without foreign trade because in it the various branches of production do not develop evenly." With its penetration in the international market, the system of capitalism "destroys the age old isolation and seclusion of system of economy (and, consequently, the narrowness of intellectual and political life)", "links all countless of the world into a single economic whole."¹²

Anyhow, by the very nature of capitalism, the process of transformation of the pre-capitalist mode of production into capitalist is an uneven and disproportionate process. For completing this transformation and for the development of capitalism, the growth of the means of production (productive, consumption) must outstrip the growth of means of consumption.

CAPITALISM IN AGRICULTURE

Marx established that the basic economic laws of development of capitalism are common of both industry and agriculture. Kautsky and more so Lenin, paid particular attention to the theoretical analysis of the capitalist development in agriculture. It is maintained that the same economic laws operate in capitalist agriculture as in industry, in particular the laws of competition in commodity market. Concentration of land, farm assets and production, and centralisation of capital necessarily bring about the ruin and squeezing out of small scale, farm production by large scale capitalist production, resulting either in the decline in the proportion of land they own or in both. This view is based on the inevitable class-differentiation of the peasantry under capitalism and on the fact that large, scale capitalist production has decisive advantages over small-scale production in agriculture.

The spread of capitalist production relation in agriculture is always shown as compared with industry and it manifests also in varied ways, there being basic structural distinctions between industry and agriculture. Since this process is "much more complicated than in 'industry' in any analysis of the transformation of pre-capitalist agriculture into the capitalist agriculture, two important considerations, which Lenin emphasised, must be kept in view, are : first, in agriculture the process of development of capitalism is immeasurably more complex and assumes incomparably more diverse forms", and second, "as capitalism develops, agriculture, always and everywhere, lags behind commerce and industry, it is always subordinate

to them and exploited by them, and is always drawn by them, only later on, the part of capitalist production.”¹³

The capitalist agriculture is impossible without capital. In the process of proletarianisation of the small/poor peasantry, the growth of the home market, and consequently the information of a strong bourgeoisie peasantry, the spread of improved implements takes place among the peasantry which signified precisely the accumulation of capital as means of production. Since the development of capitalism in agriculture is complex process and it takes in a diverse manner, therefore, it is natural that its essence and manifestations are also reflected in varied form.

The essence of capitalism in agriculture is presented by three main characteristics of this development; first, by the spread of wage-labour consequently upon the emergence of the class of rural bourgeoisie and of rural proletariat; second by the generalized commodity production with the rise and expansion of exchange through the spread of home market and foreign trade, and third by the increase and expansion of capitalist accumulation in agriculture and the dominant importance of usurer's and merchant's capital.

Further, this essence of agriculture capitalism is manifested in three major processes, in agricultural production and rural social life, first in the development of productive forces which express themselves through employment of machinery and modern farm-input and expansion of large-scale form of production; secondly^ in social division of labour which is expressed through a process of specialization and spread of intensive cultivation, and thirdly, the separation of agriculture from industry and increase in industry and commercial population at the expense of agriculture.

The consequences of this development of capitalism in agriculture are found not only in the sphere, of material production but also in socio-cultural life of rural society. First, it establishes the supremacy of production relations as against mere property relations because of the declining role of allotment land, traditional tenancy relations and change to new forms of land tenure system and new land property right and the role of rent. Secondly, it affects the capitalist differentiation of the peasantry into distinct rural peasant classes of antagonistic contradictions and conflicts as a result of the process of depeasantisation of a part of middle peasantry and proletarianisation of substantial section of the poor peasantry, along with the emergence and expansion of the peasant bourgeoisie. Thirdly, it is accompanied by an increase in importance of impersonal as opposed to a personal social order, that is, order, value, behaviour patterns, institutions and organisations governed by rules rather than by persons with a widening gap between what exists and what is considered desirable and possible.

But all these developments of capitalist nature in agriculture production and its production relations are associated with the limitations imposed by the fact that agricultural capitalism develops at a slow speed and in varied forms and the remnants

of pre-capitalist production and its relations continue to exist for a long time. As a result, there exist multiple modes of agricultural production and therefore, capitalism in agriculture may remain deformed and distorted. Nevertheless, if once capitalism emerges in agriculture in its essence, then the contradictions between labour (rural proletariat) and capital (rural bourgeoisie) and also industrial/commercial bourgeoisie become dominant at all levels of social action, followed by the class contradiction within the peasantry, particularly between the small, poor peasantry and capitalist peasantry.

Under the capitalist mode of production, capitalist possesses the latest improvements and methods not only of separating 'cream' from the 'milk' but also of separating the milk from the children of the poor peasants. There is no contradiction in poverty amidst plenty of mass poverty and deterioration in the living conditions of the rural poor alongside the development of capitalism in the economy. "Capitalism and mass impoverishment, far from precluding actually condition each other", argued Lenin, "because, we get the impoverishment of the people, the growth of capitalism and the expansion of the market."¹⁴ In this process, "the market demands of every farmer, as an absolute necessity, submission to the new conditions and speedy adjustment to them. But this speedy adjustment is impossible without capital. Thus, under capitalism small scale farming is condemned to the utmost of routine and backwardness and the least adaptability to the market. The majority of peasants are quite unable to meet their need for money by expanding their farming for they have no stocks or sufficient means of production. The complex and painful process of proletarianisation of the small peasantry, which follows as a result, involve and necessarily the direct expropriation of the peasants by big capital but also the ruin of the small peasants and worsening of condition on their farms, as process that may go on for years and decades. This process may assume many such as the small peasants overwork or malnutrition, heavy debt, worse feed and poorer care of live-stock, poor husbandry, technical stagnation, etc.

In capitalist production relations of agriculture land like labour-power also becomes a commodity, a money making machine. The process of concentration of means of production, particularly of land, and of production itself comes into being, and among other factors, the introduction of machinery leads to the concentration of production. Without this capitalist concentration of production, the large-scale production on capitalist pattern is not possible. Moreover, "the peasant groups differ not only in the size of their farms, but also in their method of farming." As for methods of farming in agriculture the "technical improvements" the result of the growth of commodity economy and "the carrier of technical progress in modern agriculture is the rural bourgeoisie, both petty and big." This peasant bourgeoisie "is compelled by the competition to seek new methods in as much as agriculture is increasingly acquiring to commodity, bourgeoisie character." However, it must be noted that "technical progress in agriculture expresses itself in different ways, depending on the system of agriculture, on the system of fields cultivation."¹⁵

Opposed to the myth of bourgeoisie political economy supporting small scale production of the small peasantry on efficiency ground, the actual fact is that the “labour productivity in the top groups of peasantry is considerably higher than in the bottom and middle groups.” The relations between large-scale capitalist and small-scale peasant production in the agriculture, Lenin emphasised, “is the relation between a completely developed and under developed phenomenon, between the higher stage of development of the capitalist social formation and a lower stage.”¹⁶ However, Lenin cautioned that “the very law of the superiority of large enterprises over small is a law of commodity production alone and consequently is not applicable to enterprises not yet entirely drawn into commodity production, not subordinated to the market.” Because “if the agricultural production of the small peasant is not drawn into the sphere of commodity production, if it is merely a part of household economy, it also remains outside the sphere of centralizing tendencies of the modern mode of production.” But it is impossible for small peasantry to remain outside the subordination influence of the market and the pre-capitalist situation of this peasantry changes, “when natural economy is supplanted by commodity economy, simple commodity production is supplanted by capitalist production.”¹⁷

In a developing capitalist society, “the peasant bourgeoisie is also a representative of merchant’s and usurer’s capital”, apart from the substantial money, capital at its disposal. In the process of further development of commodity production and deeper differentiations of peasantry, the merchant’s/usurer’s capital is forced to yield to big centralised capitalist or public institutes which monopolize mortgage capital. The more rapidly do land, labour and production become commodities, and the more widespread is the use of improved farm implements and modern methods of cultivation, “the more rapidly will merchant’s capital be supplanted by industrial capital and the more rapidly will a rural bourgeoisie be formed among the peasantry.”¹⁸ This rural bourgeoisie consists of the top group, which comprises the affluent peasantry, a minority group among the entire peasantry. The “progress of the well to do minority, however, is a heavy burden upon the mass of the poor peasants”.

Under capitalism, Lenin noted, “the difference in the class status of the small farmers and the hired labourers is thrown into especially sharp relief. To be sure, both are subject to exploitation by the capital, though in entirely different forms.” What is more “the small farmer, whether he wants it or not becomes a commodity producer. It is this change that a fundamental, for it alone, even when he does not as yet exploit hired labour, makes him a petty bourgeois and converts him into an antagonist of the proletariat. He sells his produce, while the proletariat sells his labour-power..... As a commodity production develops, the small farmer in accordance with his class status, inevitably becomes a petty landed proprietor in fact of the conditions and interest in the independent proprietor isolate him even from the mass of the producers; who lives mainly on wages.”¹⁹

In the capitalist setting of agriculture; sum-total of all economic contradictions among the peasantry constitute what we called a differentiation of the peasantry.

This process signifies the utter dissolution of the old, patriarchal peasantry and the creation of new types of rural inhabitants. This disintegration of peasantry into antagonistic classes develops when the pre-capitalist uniformity is replaced by increasing diversity, accompanied by technical progress in all branches of agriculture. The difference of peasantry takes place, as Lenin noted, "if the relations within the ranks of this 'peasantry' are such that a majority proletarians, if a minority expanded their land ownership and was rich while, the majority always have a deficit and become ruined." Under capitalism, "individualism becomes the basis of socio-cultural and economic relations among the classes. In this situation, "the peasantry does not constitute a single class...for within it a bourgeoisie and proletarian classes are forming." What is more, the process of differentiation among the whole also penetrates the small peasants. Among them, "there develops, on the one hand, an economically strong bourgeoisie peasantry and on the other, proletarian types of peasantry and we call this process the internal differentiation of the small peasantry."²⁰

Through the capitalist stratification of rural society, the extremes are reinforced because, "the peasant bourgeoisie oust not only the bottom group, but also the middle group, of a peasantry." As a result at the bottom of the pyramid exists a vast mass of proletarian, marginal and small peasants and many of them form part of the reserve army of unemployed in the capitalist system as a whole. It is, to use Marx's term, the hidden form of his army. About their small farms, Lenin said, "capitalism requires these" "dwarf" "parcellized" pseudo farms so that without expense it can always have a mass of cheap labour at its disposal." In a way, "the process of the proletarianisation of the peasantry...is manifested everywhere to the spread of wage labour in every form among the small peasants. The essence of this whole process is represented by domination of capital in agriculture."²¹

The process of agricultural capitalism develops both through intensive and extensive agriculture. Even in the face of differentiation of the peasantry some of the farms of the small peasants may turn out to be large in terms of capital in land and in their scale of production, when more capital is invested on small average, Lenin pointed out, "In this case too, technical progress.... splits the direct producers, into the farmer, who enjoys all the advantages of intensive farming, improved implements, , etc., and the worker who with his 'freedom' and his 'cheapness' provides the most favourable conditions for the progressive development of the entire national economy." The tendency of differentiation between small scale and large scale farm production also manifested when "small scale production is being crowded out by large scale production through the displacement of farms which are 'large' in acreage but are less productive, less intensive and less capitalist, by farms, which are "smaller in acreage, but more productive, more intensive and more capitalist." In the countryside the differentiation of peasantry leads to a diminution of the role of allotment of land. "This separation of land as an instrument of production from landed property is one of the major results of the capitalist production."²²

The extent of peasant differentiation and consequently the tendency of bourgeoisification, depeasantisation and proletarianisation of the peasantry are determined by the struggle of economic interest among the peasantry. The fundamental cause of this struggle is the existence of a system under which the market is the regulator of social struggle is the existence of a system under which the market is the regulator of social production.” The means of this struggle among the peasantry “are not only; and not even so much the grabbing of lands as the lower production costs following in the increase of production.” In this process, the dominance of capital gets established in agricultural and “farm merchant’s capital turns into industrial capital, from a dominant force on the market into a dominant force in production.”²³

The influence of the competition of capitalist agriculture leads to further deterioration of conditions of peasant farming, making its existence highly unstable. “In Peasant farming, however, the influence of industry is felt least of all, while the competition of capitalist agriculture is felt most of all. The peasant is unable to keep going without almost working himself to death and compelling children to work hard.” Therefore, Lenin wrote, “what compels the peasant to make up for his lack of capital and technical equipment with his own muscles the necessity of exerting the utmost effort and of ‘economizing’ in everything inevitably affects every side of the farm of the small peasant.” The bourgeoisie theory of the ‘viability’ and ‘profitability’ of the small scale production while promising the small peasantry and its so-called ‘peasant economy’ affirms and assured position in the capitalist society, in substance, preaches to the small peasant : “he must not gravitate towards the class struggle of the wage workers but must try to strengthen his position as a proprietor and master.” This theory is based on an unhistorical conception that non-capitalist, development of agriculture is possible in a capitalist conception that non-capitalist petty production in agriculture is doomed to extinction and an incredible based and downtrodden position because “petty production is dependent on big capital, backward in comparison with large scale production in agriculture and can only keep going by means of desperately reduced consumption and laborious, arduous toil. The water of human labour, the worst forms of dependence of the producer, exhaustion of the peasant’s family, his cattle and his

land-this is what capitalism everywhere brings to the peasant.”²⁴

Under capitalist production relations the real viability of a small peasant depends on the condition of his work, his livestock and the way he tills his land. As a result, among the huge mass of the small peasantry there are practically none who procure independently for themselves. They are not independent from capitalist exploitation and from exploitation which is underdeveloped and primitive. The presence of capitalism in society is not alone responsible for all misfortunes of the small/poor peasants. They suffer not only from capitalism, but also the insufficient development of capitalism. Under capitalism moreover, as Marx pointed out, “the conditions of direct exploitation and those of realizing it are not identical. They diverge not only in place and time, but also logically.”²⁵

In brief, the capitalist system and its economy is always full of several profound contradictions, because “capitalism cannot develop except in a whole series of contradiction.” Some of the main contradictions are : “tendency towards the unlimited expansion of production and inevitability of limited consumption”, outlining of wage workers by the “capitalist employment of machinery”, the existence of multiple modes of production, particularly in agriculture, the conflicts in the

socio-economic relations of capitalist production, etc. In this respect, Lenin observed that “these contradictions merely explain us the historical nature of capitalism, explain the conditions and cause of tendency to go forward to a higher form.”²⁶

REFERENCES

1. K. Marx, *Selected Works*, Vol. I, Moscow, 1973, p. 160.
2. F. Engels, *Selected Works*, Vol. 3, Moscow, 1970, p. 330.

3. K. Marx, *Capital*, Vol. I, Moscow, P., 43.
4. K. Marx and F. Engels, *Selected Works*, Vol. I, pp. 100-112.
5. F. Probrzhensky, *The New Economics*, N. York, 1965, p. 79.
6. K. Marx, *Capital*, Vol. I, Chapters : 26, 27, 29, 31 32.
7. V.I. Lenin, *Collected Works*, Vol. I, Moscow, 1972, pp. 437, 108, 93.
8. K. Marx, *Capital* Vol. I, p. 362.
9. V.I. Lenin, *Collected Works*, Vol. 3, Moscow, 1972, pp. 561-40.
10. V.I. Lenin, *Collected Works*, Vol. 4, Moscow, 1964, p. 97.
11. V.I. Lenin, *Collected Works*, Vol. 3, pp. 8, 42, 59, 232, 69.
12. V.I. Lenin, *Ibid*, pp. 590, 67.
13. V.I. Lenin, *Collected Works*, Vol. I, Moscow, 1972, pp. 280, in; and Vol. 4, pp. 96,111.
14. V.I. Lenin, *Collected Works*, Vol. I, pp. 109, 124.
15. V.I. Lenin, *Collected Works*, Vol. 13, Moscow, 1972, p. 207.
16. V.I. Lenin, *Collected Works*, Vol. I, pp. 256 &. 470; Vol. 3, pp. 75, 87; and Vol. 4, p. 113.
17. V.I. Lenin, *Collected Works*, Vol. I, pp. 63, 430, 444; and Vol. 4, pp. 123, 124.
18. V.I. Lenin, *Collected Works*, Vol. 3, pp. 78, 280, 287; and Vol. 5, Moscow, 1962, p. 148.
19. V.I. Lenin, *Collected Works*, Vol. 22, Moscow, 1979, pp. 65, 96.
20. V.I. Lenin, *Collected Works*, Vol. I, pp. 279, 431, 459.

21. V.I. Lenin, *Collected Works*, Vol. 3, pp. 181, 27' and Vol. 26, Moscow, 1967, p. 435.
22. V.I. Lenin, *Collected Works*, Vol. I, p. 468; and Vol. 22, p. 78.
23. V.I. Lenin, *Collected Works*, Vol. I, pp. 72, 73, 482.
24. V.I. Lenin, *Collected Works*, Vol. 19, Moscow, 1973, pp. 211, 280.
25. K. Marx, *Selected Works*, Vol. III, Moscow, 1959, pp. 239-40.
26. V.I. Lenin, *Selected Works*, Vol. 3, p. 234; and Vol. 4, pp. 58-60.

EVOLUTION OF ECONOMIC PLANNING AND FORMS OF PLANNING

Introduction

The term 'planning' is used now-a-days throughout the world in countries with different socio-economic systems. In the socialist countries, economic planning has developed into an effectively controlling principle of economic organization. In the capitalist countries, planning is no longer considered an enemy, but an ally of market economy. In developing countries too, planning is accepted as indispensable for development. Quite obviously, planning has different role and functions in these different situations. In the present lesson, we will be concerned largely with the evolution of planning both at the level of theory and that of practice.

Planning is inseparably linked with the emergence of the socialist system and quite often the terms socialist economy, planned economy, have been used as synonymous. This however, is an over simplification. The views of Marxist economists have undergone considerable change. Planning and market have ceased to be regarded as 'opposites' now-a-days. A brief historical survey will help in putting the issue in proper perspective.

The idea of Economic Planning in Early Marxian Writings

In classical Marxist writings, little, if any, consideration was given to the day to day organisation of socialist economy. The founding fathers of scientific socialism had not regarded planning as the essence of socialism, but only the way a socialist economy could be run. Marx certainly made pointed references to the negative aspects of the functioning of the market and contended that rational central control would eventually replace blind market forces. However, not being a utopian, he did not concern himself with advocating any operational technique management and planning in a socialist economy. Nevertheless, both he and Engels were well aware that in order to run a socialist economy properly it would be necessary to develop such a mechanism as would enable the allocation of resources among different branches of production and distribution of goods and services to consumers. Marx, in fact, emphasized that the determination of a proper system of regulating values and maintenance of detailed accounts would, in a socialist economy be more essential than ever before.

Planning in the writings of early Marxist writers was taken some

what naively as the return to natural and rational conditions. Thus, Kautsky in his book, *The Economic Doctrines of Karl Marx* pointed out that the only way to get rid of the contradictions of social production and private appropriation is by a return to simple small-scale production, or social ownership of the means of production. It was assumed that with the social ownership production would be carried on in a planned way, just as in pre capitalist planned in an organised fashion.

The planning aspect of socialism was suddenly pushed into the limelight when the socialist revolution triumphed in Russia. The revolutionaries believed that planning would be the immediate and adequate system of regulating production. But confronted with the reality of the situation, they realized that the ideas of planning which they had provided have no clue to an operational approach. Dobb has aptly commented that in the early years of the revolution, "planning as a propaganda phrase rather than an economic force."¹

Debates on Planning

Serious theoretical discussion on the possibility and methods of planning started only after the Russian Revolution of 1917. Apart from Russian economists, economists of the Austrian School took a leading part in these debates. The most elaborate attack on planning was made by Ludwig von Mises. In a provocative paper first published in 1920, Mises argued that planning was unable to solve the problem of rational allocation. This attack on the idea of planning stimulated discussion on the problem of allocation.

Von Mises Attack on Socialist Planning

In order to place the debate in its proper perspective, it would be well to remember that Mises' article was published at a time when Soviet Union was passing through the phase of war Communism and when fanciful schemes advocating abandonment of money and prices were being bandied about. Mises identified these schemes with socialism in the general and argued that in the absence of private ownership of the means of production, the distribution of consumption goods, would be independent of the question of production and its economic conditions. The principle of exchange would operate within narrow limits. The material available for exchange would be confined to consumption goods. Production goods would never be the object of exchange and it will, therefore, be impossible to determine their monetary value. Money, in a socialist economy, would never play the role of determining the value of production goods. Calculation in terms of money would thus be impossible. Mises extended the argument to say that this would make any economic system of calculation absolutely impossible. Mises argued that "in the socialist commonwealth, every economic change would become an undertaking whose success can be neither appraised nor

respectively determined."² He concluded that socialism is the abolition of rational economy.

Barone's Views

An answer to the issues raised by Mises had suggested by Pareto as early as 1897 and elaborated later by the Italian economist Ernico Barone in a notable essay, "The Ministry of Production in the Collectivist State."³ Barone established that the accounting prices of a socialist economy would be economically as significant as the market prices of a competitive economy. Following the suggestions of Pareto, Barone, using simultaneous equations, demonstrated mathematically the possibility of rational allocation of resources in a socialist economy. His analysis brought out the similarities between the socialist and competitive regime. Barone maintained that production in a socialist regime would be ordered substantially the same way it was a competitive one.

Hayek and Robbins Attack on Socialism

Hayek and Robbins of the London School of Economics took up a second line of attack on socialism. While they conceded the theoretical possibility of rational allocation of resources under socialism, they argued that it could not be worked out in practice. According to them, "In order to determine prices, the Central Planning Board of a socialist state would have to have complete lists of the different quantities of all commodities which would be brought at any possible combination of prices of the different commodities that might be available." Further, they argued that the Central Planning Board would have to solve thousands, even millions, of calculations simultaneous equation-before economic decisions could be taken.

Taylor's Answer

An answer to this was already contained in F.M. Taylor's presidential address to the American Association in 1928.⁴ Though Barone had indicated that it was possible to solve the calculations needed for rational allocation of resources, it was Taylor who showed how this could be done.

Taylor argued that the right way for a socialist state to allocate resources would be to distribute income to its citizens in the form of money to be spent in a free market for consumer's goods. The state should then be guided by consumer's demand in the sense that the various goods and services should be produced in such quantities as could be sold at prices equal to cost of production.

Taylor argued that the socialist state could solve the problem of imputation by a process of trial and error. The main problem, Taylor pointed out, is to determine the relative importance of the primary factors of production. This is derived from and determined by the importance of unnumerable commodities which emerge from the whole complex of

productive processes. In practice, the relative importance of each factor can be determined by assigning a provisional valuation to each factor, in terms of money. The managers of the socialist industries would then carry on their operations as though the provisional valuation were correct. Errors would show up in unmistakable way : where values had been set too high, an economical use of the factor would result in a physical surplus; where valuation is too low, a liberal use of that factor would result and deficit would appear. "Surplus or deficit, one or the other, would result from every wrong valuation of a factor." By successively changing the valuation in the indicated directions, correct accounting price for each factor could be ascertained.

Lange's Refutation

It is clear that Hayek and Robbins had carried on their attack on socialism by ignoring the sound demonstration by Taylor of the applicability of the method of trial and error for finding the right valuations of quantities. A comprehensive answer was provided by the polish economist Osker Lange in his most famous paper 'On the Economic Theory of Socialism'.⁵

Lange in reply to the marginalists pointed to the confusion regarding the nature of prices. According to him, one could think of prices in two senses :

- (i) A narrow sense in which a price is a concrete market fact between independent buyers and sellers, and
- (ii) A more generalized sense of "an index of terms of which alternatives are offered". This is what Lange called the parametric function of prices.

Either of these could serve as the basis for rational costing system. The fallacy of Mises argument evidently was that prices were recognized only in the former sense.

Lange argued that the method of trial-and-error for determining accounting prices in a socialist economy would be substantially the same as that by which prices are actually determined in a competitive market.

Lange pointed out the three conditions of an equilibrium in a competitive market :

- (i) A "Subjective condition" that each consumer and producer must adjust his buying and selling that he cannot add to either his income or his satisfactions.
- (ii) An "Objective condition" that the price (whether market or accounting) be such that the quantity of each commodity demanded is equal to the quantity supplied; and
- (iii) The incomes of consumers must be equal to their receipts from productive services plus profits.

Lange pointed out that in socialist economy, the Central Planning

Board performs the functions of the market, namely establishing the conditions of equilibrium. The method of trial-and-error is based on what Lange called the parametric function of prices.

The Central Planning Board does not set the first accounting prices purely by guesswork, but with prices historically given for which considerable information is already available. These serve as the basis for successive trials.

The quantity of each commodity demanded and supplied is established on the basis of decisions of managers of production and productive resources in the public ownership and also of individuals as suppliers of labour. If the quantity demanded of a commodity is not equal of quantity supplied, the price of that commodity has to be changed. It has to be raised if demand exceeds supply and lowered if supply exceeds demand. The Central Planning Board will fix a new set of prices which will serve as the basis for new decision and result in a new set of quantities demanded and supplied.

Lange emphasized that the Central Planning Board need not have "complete lists of the different quantities of all commodities which be brought at any possible combination of prices of the different commodities which might be available".⁶ Neither would the Central Planning Board have to solve hundreds or thousands of equations. The only equations which would have to be 'solved' would be those of the consumers and managers of production. There are exactly the same 'equations' which are solved in the present economic system and the persons who are 'solving' are also the same. Lange further pointed out that neither mathematics nor a knowledge of demand and supply functions is needed in finding out the 'right' accounting prices.

Lange Concluded : There is not the slightest reason why a trial and error procedure, similar to that in a competitive market, could not work in a socialist economy to determine the accounting prices of capital goods and of the productive resources in public ownership. Indeed, it seems that this trial and error procedure would, or at least could, work much better in a socialist economy than in a competitive market. For this the Central Planning Board has a much wider knowledge of what is going on in the whole economic system than any private entrepreneur can ever have and consequently may be able to reach the right equilibrium prices by a much shorter series, of successive trials than a competitive market actually does. The argument that in a socialist economy the accounting prices of capital goods and of productive services, public ownership cannot be determined objectively, either because this is theoretically impossible, or because there is no adequate trial and error procedure available, cannot be maintained.

Thus, Lange not only refuted the anti-socialists but went a step further and demonstrated the superiority of a socialist economy in making rational

allocation. However, it will not be out of place to mention here some of the weaknesses in Lange's formulation. In the first place, it should be recognised that in Lange's model the Central Planning Board is not a planning agency at all rather price fixing agency. In any real socialist society, however, the Planning Board is expected not merely to fix prices, but also to lay down concrete directions about investment and production. Secondly, it is argued that 'equilibrium prices' would be altering all the time and made after the event, thus causing considerable waste and losses. Besides, a system of prices like this, guided by the market, would reproduce a number of negative features of capitalist economy.

The Soviet Experience

Planning and Planned economy are no longer a matter of theoretical debate. The successful launching of the First Five Year Plan in 1928 and the completion of Five Year Plans since then by the erstwhile Soviet Union has taken out planning from the realm of possibility to that of reality. Whatever else the critics of the Soviet Union might say about it, it is accepted by all that the Soviet Union has a planned economy.

The system of planned management of the economy was principally set up in the first ten years of Soviet government. It progressed gradually. Making a beginning with operational and then longer term plans for particular sectors of economy, the Soviet Union progressed towards a single, complex, macro economic plan.

In order to appreciate the success of economic planning in the Soviet Union it would be instructive to keep in mind the level of productive forces in Russia at the time of the Bolshevik take-over. Russia at this time was extremely backward, with 80 per cent of its population illiterate or semi-illiterate, a very small industrial sector incapable of self-supporting development, growing population and an abundant labour supply, acute shortage of capital with one-third of the private companies foreign owned, suffering scarcities of materials and food.

It was in this backdrop that eight months after the seizure of power, the first model of 'realized socialism' was set up. This was marked by extreme communization and lasted till 1921. During this period, called "War Communism" the planning of all economic activity was rather a measure of rationing than a planned development.

This was followed by the period of New Economic Policy (N.E.P 1921-1928) basically a mixed economy. The basic principles of N.E.P were (i) personal incentive (ii) economic accounting and (iii) the utilization of Commodity and money relation in the construction of socialism.

Planning in the sense that the state exercised the authority to regulate the economy existed almost from the beginning of N.E.P. However, the control of the economy by the state was severely limited. The economy was fundamentally a market economy. The connection between the state sector

and individual agriculture through the market dominated all other economic relations. Most of the transactions of state industry were conducted through the market which dictated the pace and shape of the consumer goods industries.⁷

The essence of N.E.P. accordingly to declarations by Lenin "is the alliance of the proletariat and peasantry, the union of the proletariat with the broad masses of peasants." The state under the N.E.P. took from the peasants only a part of their surplus produce in the form of food tax. The peasants were allowed to sell the rest in the market. The freedom of private trade certainly did imply revival of capitalism, but the commanding heights of the economy remained in the hands of the proletarian state.

The N.E.P. achieved tremendous success. In 1926, the level of development of the productive forces, both in industry as well as in agriculture, surpassed that of before the war. The state started setting up of developing industries with the help of available resources between 1921 to 1924.

Planning in the conception of the Bolshevik party in the later twenties involved the fundamental reshaping of the economy. Planning was to be used for directing resources towards the fuel and power, iron and steel and engineering industries in order to transform the Soviet Union as rapidly as possible into a self-sufficient economy based on advanced technology.

The new approach to planning carried with it a more independent attitude to the market economy. It was accepted that market would continue to exist over a long period and that a fully planned economy, which presupposed the socialization of agriculture, should be achieved by persuasion and economic incentive and not by administrative pressure. The need to overcome market forces was emphasized. Upto 1925, planning covered only individual branches of industry. The industry plans were not sufficiently linked and were both aggregative and approximate.

The first ever unified plan for economic development was the State Plan for the electrification of Russia. The history of Soviet perspective plans began with GOERLO. Since 1928, economic affairs of Soviet Union have been conducted in accordance with five year plans drawn up by the State Planning Committee (GOSPLAN).

The First Five Year Plan (1928/29-1932/33) was the first experiment in long term planning by the state. The plan covered all the sectors of the national economy. Its primary task was to ensure the accelerated growth of machine building industry, which would be capable of re-equipping the whole of the national economy. The task of the plan was to overcome the age-old backwardness of agriculture, to switch it over a machine basis, to organise the small-scale collective farm and thus, raise productivity. The First Five Year Plan was fulfilled in four years and three months. The

successful completion of the First Five Year Plan at a time when the capitalist countries were passing through a great economic crisis, boosted the international creditability of socialist planning.

With the experience gained from the First Five Year Plan, two more five year plans successfully tackled the problems of industrialization, reorganization of agriculture and strengthening the defence capacity of the Soviet Union. (The Third Five Year Plan was interrupted by Nazi Germany's attack on the Soviet Union). These plans eliminated the basis of exploiting classes and unemployment.

The War (1941-45) put the system of planning to a severe test. It necessitated the restructuring of all industry to defence requirement. It also made imperative the shifting of productive capacities and evacuation of manpower to safer regions. It was due to the successful accomplishment of this that a war economy capable of providing the front with advanced military equipment, uniforms and provisions was created, which enabled the Soviet Union's victory over Nazi Germany.

In 1946, a five-year plan (1946-50) was drawn up. It considerably over fulfilled the pre-war level of industrial output was reached as early as 1947. The successful completion of the post-war five year plans have taken the Soviet economy to new heights.

The Five Year Plans worked on the principle of economic accounting, i.e., covering the costs by receipts and planned profit. Any additional profit being siphoned off into the state budget by a turnover tax, investment funds and most of the working capital being obtained free of charge from the state budget. The retention of profit by enterprises was governed by and did not govern the rate of accumulation. Prices or price-fixing criteria were decided centrally; production goods were available to enterprises as those prices via direct allocation in conformity with planned tasks; consumption goods were available to consumers at these prices subject to availability.

A perusal of the Soviet economy since the revolution reveals that in the early period of N.E.P., the system in operation was a fairly decentralized one, in the sense that detailed decisions about production were taken at the level of individual industrial managements or enterprises, while supply relations between these bodies were usually direct. With the launching of the First Five Year Plan there was a shift in the direction of greater centralization. Centralization increased in the successive plan periods and even before the war the Soviet economy had assumed the character of war economy in peace times. Oskar Lange described the Soviet economy as 'war economy'.

Centralization implied as increasing amount of detail being written into the plans. The mechanism of planning and the methods of planning

underwent considerable changes. In the beginning, the Planning Committee (GOSPLAN) issued only general targets guidelines (the so called 'Central Figures') to help the commissioners and economic departments of the State to draw up their own programmes. These were later replaced by operationally binding annual plans detailing minutely to the level of individual enterprises. Thus, a widespread system of all the funded goods developed. Goods allocated in this way fell into two main categories : (i) those goods for which the main allocation quotas were worked out at the all Union level and (ii) those goods for which allocation was done at the level of Ministries of Republics.

The result of this was that the operational discretion and autonomy of individual enterprises was increasingly restricted. In addition to the targets included in annual plans, Ministers and their more specialised sub-departments (glavki) issued ad-hoc instructions to the management of enterprises. During war and in the post-war period of reconstruction, such detailed controls from above increased.

An adequate generalization of the system of functioning (planning and management of the economy; formed in the USSR by the 50's) was provided by the 'centralised model' characterised by concentration of all basic economic decisions (apart from individual choice in the sphere of employment and consumption) at central level, a hierarchical structure of plans, transmission of decisions from above to below in the form of command and a passive role of money.

Planning since World War-II

Until World War-II, the USSR was the only socialist country in the world. The situation changed after the World War. A number of socialist countries, styled 'People's Democracies', emerged on the world scene. These countries were different from each other and the Soviet Union. They included highly industrialized countries like Czechoslovakia and GDR (East Germany) as well as China and the Balkin countries whose objective conditions for industrialization were worse than those of Soviet Union.

The People's Democracies in their efforts at socialist construction adopted the method of planned economic development and management. They had the rich experience of the Soviet Union to draw upon and adopted, albeit, often uncritically and slavishly as Dobb puts it, the 'Centralized model'. The adoption of the model of centralized planning was justified on the ground of universal historical necessity in the first phase of development of a socialist economy. It was argued that the very process of social revolution, which liquidates one social system and establishes another, requires centralized disposal of resources and consequently centralized management and planning.

In addition to those arguments centralization, in general, is the first

phase of socialist construction. It was pointed out that in under-developed countries the need for rapid industrialization impose the necessity of high centralization. That is so for two reasons (i) The necessity to concentrate all resources on certain objectives and avoid dissipation of resources on other objectives which would divert resources from the purpose of rapid industrialization (ii) To make up for the lack of industrial cadres.

Later in the fifties and specially in the sixties, the weakness of the centralized model came to be realized and appreciated. It was felt that with the development of productive forces and the growing complexity of the economy, a centralized system cannot function effectively, because of the sheer volume of interconnected decision making. Investment decisions also suffered as a consequence of overcentralized. It was realized that the more developed an economy, the more difficult it is to administer it in a centralized manner. Besides, it was appreciated that centralization cramped initiative.

Centralization had led to a number of distortions, expressed in the bureaucratization of the national economy, in a lack of leadership elasticity, and restriction of the further development of productive forces. These distorties created a situation in which a certain part of the state and economic apparatus appeared a state within a state. Such tendencies manifested themselves in the form of the security apparatus placing itself above the Party and the State.

These problems necessitated a retreat from excessive centralization for assuming democratic control in the state, party and the economy apparatus and the need for worker's self-management. Alternative models to the centralized ones have developed since the '50's and economic reforms of considerable magnitude have taken place in the USSR as well as in the People's Democracies.

The tendency towards some centralization in planning had begun in the middle '50's. As early as 1951, Yugoslavia had initiated an extensive decentralization which gave individual enterprises as much independence as the Soviet trusts had enjoyed during the NEP. In Poland and to some extent in Czechoslovakia and USSR, moves were made in 1956 to reduce the number of targets fixed in the central plan. Side by side with this the number of products allocated at the top most level was also reduced. Some discussion on economic models had also begun.

In 1957, came the sweeping decentralization on a regional basis, under which the highly centralized all union ministries were substituted by over a hundred regional economic councils (Sovnarkhoze) and more responsibility was assigned to republican Gosplans. But the activities of the individual enterprise were still bound by various indices and 'limits' imposed upon them from above and the bulk of their suppliers were still object to allocation quotas fixed by higher authorities.

An extensive decentralization was initiated in Czechoslovakia in 1957-58. This had considerable effect in increasing the power of the enterprises.

In 1962 the economist Evsei G. Liberman⁸ published an article in *Pravda* which initiated a debate on decentralization. This 'great debate' ultimately led to a series of economic reforms beginning in 1965. Liberman called for a new system under which enterprises should be freed from 'pretty tutelage' and a mass of detailed regulation. Liberman proposed that the enterprises be assigned their final output mix, leaving it to them to decide upon the appropriate technology. The more efficiently a firm used its inputs, the lower would be its costs and higher its profits. The size of a firm's profits would be an index of its efficiency. Liberman proposed an incentive scheme under which bonuses to the enterprise and its members should be proportional to its net income or profitability.

After some experimentation, a second round of discussion started in 1964. These discussions eventually led in 1965 to the C.C. of the C.P.S.U. (Central Committee of the Communist Party of the Soviet Union) proposing a major organisational reform⁹ which was adopted as a law by the Supreme Soviet. The first clauses of the Statute on Socialist Industrial Enterprise declared, "The socialist industrial enterprise shall be the basic unit of the national economy in the USSR. Its operation shall be based on centralised direction combined with economic independence and initiative on the part of the enterprise."⁹ Kosygin's reforms contained four significant new policies in relation to individual enterprises:

(i) Managers' bonuses are paid for fulfilment of planned targets for sales profit, or profitability and physical output. The scale of bonuses was designed to provide relatively higher rewards for fulfilment of targets. To evaluate the amount of sales, the gross of output indicator was replaced by output sold. This implies production in accordance with consumer's desires. Detailed target directives were eliminated and so were the labour productivity number of workers and employees and average wages (ii) A large portion of the profits can be retained and utilized by the enterprise for bonuses, welfare purpose and decentralized investment (iii) Half of decentralized investment is financed by repayable and interest bearing loans from banks and interest charges are levied (in the form of tax) on all fixed and working capital put at the disposal of the enterprises (iv) Strict enforcement of contracts between enterprises, precluding changes in enterprises plans at will during the plan period.

The reforms of 1965 left the system of centralised allocation of supplies more or less as before. Its dismantling was considered as a task for the future under the new system managers were allowed to chose the labour mix only within the central limits on total payrolls. The more decentralized investments have resulted in a significant decrease in central control over the determination of future output.

During the sixties similar reforms, though independently, were introduced in other socialist countries. Thus, reforms bearing a close

resemblance to the Liberman reforms were carried out in Czechoslovakia when the Central Council (C.C.) of the Czechoslovak Communist Party accepted in principle the proposals of Ota Sik in 1965. This was a crucial step beyond the decentralization measures of 1957-58. Hungary also introduced similar changes in 1968-69. These reforms went significantly beyond the ones in the Soviet Union. The centralized allocation of supplies was discontinued except in a few cases of special scarcity. The relation between enterprises was characterised by some degree of market exchange and the defacto autonomy of the enterprise to determine its own short term operational plan was considerably increased.

The Czech and Hungarian reforms introduced a considerable degree of flexibility in the price system. Provision was made for decentralization of price fixing as well as output decisions. Prices were divided into three broad categories (i) centralised price fixing as before; (ii) actual prices paid being fixed contractually by enterprises with certain 'price limits' established by the price-fixing authority; (iii) prices left free to vary without limits, as 'market prices', determined by the current supply-demand situation, (e.g. luxury items, novelties and the less standard types of consumer's goods). In East Germany, somewhat analogous changes in planning and management had been accepted by the Council of Ministers of German Democratic Republic (GDR) as early as July 1963. These were fairly closely followed by Poland.

This showed that planning played an important role in the erstwhile Soviet Union and other socialist countries. On the theoretical level, the system of planning was quite successful but at the implementation level certain problems were there. Most of these problems were of political and administrative nature. These became hurdles in the success of planning to the desired level. People found themselves dissatisfied with socialist planning on many fronts. This was one of the main reasons for abandoning the path of socialist development in a number of socialist countries in the recent past.

Models of Planning

As a consequences of reforms carried out in socialist countries, a number of alternative models of planning to the traditional centralized models have emerged on the basis of the management of the economy and the method of allocation. The four basic models of planning can be distinguished as follows :

- 1. The Bureaucratic Centralized Model :** In this model all decision making is done by the Central Planning Authority. Since all economic calculation is carried out at the time of framing the plan, there is hardly any scope for independent decision making at the operational level. Production units are bound by directive targets and plan indicators. Economic accounting is carried out exclusively in physical units and allocations are based on material balances.

2. The Planometric Centralist Model : In this model, the method of physical balances is substituted by mathematical solutions, carried out centrally. The system envisages use a network of computers for the collection, processing and cross-checking of economic data. With the help of computer an input minimizing and output maximizing is formulated. The optimal prices are established computationally. The interrelationships in the optimal plan provide the basis for optimal prices. All production decisions are based on optimal prices. The actual methods of plan fulfilment are left to individual enterprises.

3. Selective Decentralized Model : This model retains the central planning and administrative machinery of the centralised model. But some responsibilities are delegated to branch associations and regional bodies and to enterprises. These bodies are able to influence the central plan. The number of directive indicators is reduced. Profit is accepted as the criteria of enterprise efficiency. Prices are centrally determined, but they reflect more closely the cost of production. The consumers have freedom of choice, but retail prices may be manipulated to ensure equilibrium in the market.

4. Supplemented Market Model : In this model, annual plans and directive targets are done away with. The market mechanism regulates the economic processes. Prices are determined in the market and they reflect the conditions of supply and demand. But the prices are corrected by authorities, keeping in view the macro-social cost-benefit consideration. Prices provide the guide to enterprises which aim at maximizing their profits. Allocation of resources is determined by consumer's preference. Planning in this cases is essentially orientation planning being restricted to determining certain basic proportions only and at best initiating key development projects where necessary.

REFERENCES

1. M. Dobb, *Soviet Economic Development Since 1917*. Routledge and Kegan Paul, 1966, p. 337.
2. L. Von Mises, 'Economic Calculation in the Socialist Commonwealth', in F.A. Hayek (ed), *Collectivist Economic Planning*. Routledge and Kegan Paul, 1935. This paper was published in 1920 and obtained wide circulation after it appeared in English translation in Hayek's collection on planning problems.
3. E. Barone, 'The Ministry of Production in the Collectivist State' In F.A. Hayek (ed), op. cit. Originally published in Italian in 1908.
4. F.M. Taylor, "The Guidance of Production in a Socialist State" in Benjamin E. Lippincott (ed)., *On the Economic Theory of Socialism*, McGraw Hill, Paperbacks 1964.
5. Oscar Lange, 'On the Economic Theory of Socialism', in Benjamin E. Lippincott (ed), op. cit.
6. Oscar Lange, 'Role of Planning in Socialist Economy', in Oscar Lange

- (ed), *Problems of Political Economy of Socialism*, People's Publishing House, 1962, p. 18.
7. M. Dobb, *Socialist Planning: Some Problems*, Lawrence and Wishart Ltd. 1979, p. 19.
 8. E.G. Liberman, "Plans, Profits, Bonuses" in Alec Nove, A and D.N. Nuti (ed), *Socialist Economics, Penguin Education, 1964*. Originally published in *Pravda*, 9 September, 1962.
 9. Resolution of the 23rd Congress of CPSU in *Theory of Profit in Socialist Economy*, People's Publishing House, 1966.

**PLANNING AND MARKET MECHANISM UNDER
SOCIALISM AND CAPITALISM**

Planning is an institutional system of a national economy in which it serves as the main mechanism for allocation of resources and as the general regulator of the economy. A planned economy is distinguished from a market economy by certain characteristic features (a) the wide-range application of national economic planning as a comprehensive regulating mechanism of the economy; (b) the application of central planning as a set of centrally made decisions (by a central organ) by means of which the coordination and the optimal use of resources on the national scale is secured (c) state guidance of the national economy; and (d) decisions are made from the social point of view.

A number of social and organizational conditions must be fulfilled to enable the state to exert a real influence on the operation of the national economy. The most important factor in the context is the creation of a strong state sector in the economy. Planned economy was created for the first time in Soviet Union after the 1917 Bolshevik Resolution and, later, planned economics emerged in a number of post-revolutionary East European and Asian countries as a result of political and social transformations after the Second World War.

Planned economy is an alternative to another form of economic organisation, the market economy which is regulated by the mechanism of prices and profits. Planned economy is a more efficient form of economic organisation than unplanned, spontaneously developing as an instrument for steering economic processes : (1) Market mechanism does not automatically ensure full employment, optimal utilization of capacity, balance of payments equilibrium; (2) Price mechanism does not ensure the desired allocation of resources or pattern of investment required for a balanced growth of production capacity; (3) As market signals reflect only the existing situation, or balance between supply and demand, on the market, they do not offer proper guidance for investment decision aiming at structural changes in the pattern of production and in the technology; (4) There is a broad range of goods and services for which no market can exist (public services, etc.) and their development cannot, for this reason, be based on market signals. In fact, planned economy offers the society of a possibility regulation the social division of labour ex-ante, that is, it enables

proper relations among various processes in the economy to be established in advance. By contrast, price mechanism secures co-ordination ex-post, that it attempts to remove disturbances which have been caused previously. In contemporary market economics, the coordinating ability of price mechanism has been seriously undermined and disturbed by the presence of monopolistic elements in capitalist societies. However, both planned and market economies may operate, more or less, efficiently depending on several factors. The possibilities inherent in planned economy do not become a reality through the mere fact of the introduction of planning in the social economy. These most important factors determining the efficient functioning for a planned economy are the nature of socio-political system, the level of organization of planning and management processes.

The distinction between the two-systems of economic organization by no means implies that there is no room for market mechanism in a planned economy and for planning even on a national scale, in a market economy. In the contemporary capitalist market economics as well as in socialist planned economies, planning and market mechanism co-exist or supplement each other in a definite combination. Pure systems of economic organisation do not exist in the present world. Even then the role of planning and of the market under socialism has been the most fundamental and controversial issue ever since the first socialist state was established in 1917. All socialist economies have always embodied elements of both, but the role of each varied in different periods, and further differences could be found amongst them even at particular time.

Role of Planning

The planning of economic development is an essential feature of socialism. It expresses the fact that socialist economy does not develop in an elemental way, but that its development is guided and directed by the conscious will of organised society. Under socialism, planning is a method of subjecting the operation of economic laws and the economic development of society to the direction of human will. The establishment of planned economy is one of the first achievements of the socialist revolution and it precedes the full development of socialist relations of production, though it needs a certain minimum of such relations. In the transitional period, when non-socialist modes of production still play an important role, the economy becomes already subject of planned direction of its development which is made possible by the existence in the economy of a large socialist sector which controls 'commanding heights' of economic life. In fact, this is the minimum requirement of establishing a planned economy.

In the transitional phase of socialism, the new revolutionary state is neutral in relations to the various sectors of economy. It consciously utilises the nationalized socialist sector as an instrument to regulate the development

of the whole economy. Therefore, in the first revolutionary period, intervention in the economic processes by political force plays a decisive role and economic planning starts with the direct intervention of the state in economic relations. The intervention has for its objectives and liquidation of capitalist or pre-socialist relations of production, the establishment of socialist relations of production and the control of the non-socialist sector of the economy that still remain.

In the first phase of development of a socialist economy, the planning of economic development and the day-to-day as to what extent this represents a universal necessity. But it seems that the very process of social revolution, which liquidates one social system and establishes another, requires centralised disposal of resources by the new revolutionary state and, consequently, centralised management and planning of the economy. The process of rapid industrialisation requires such centralised disposal of resources for two reasons : (i) to concentrate all resources on certain consciously decided objectives and avoid dissipation of resources on other objectives (ii) the lack and backwardness of industrial cadres. During this period, economic incentives are mostly replaced by moral and political appeals to the workers, by appeals to their patriotism and socialist consciousness. These methods cannot be considered as an essential aspect of socialism, they are merely methods of war economy necessary in revolutionary period of transition.

The period of centralised planning and management is the result partly of the requirement of the revolutionary transformation of society and in underdeveloped countries, also of the needs of rapid industrialisation. But these methods which are necessary and useful in the period of social revolution and intensive industrialisation become an obstacle to further economic progress when they are perpetuated beyond their historic justification. They become obstacles because they are characterised by a lack of flexibility; they are rigid, they lead to wastage of resources, they require a wasteful bureaucratic apparatus and make it difficult to adjust production to the needs of the population and they also hinder technical progress. Therefore, the moment when socialist society starts to overcome these centralistic, bureaucratic methods of administrative planning and management, indicates that the new socialist society has matured. In a way, the substitution of the methods of administrative and centralised management and development by new methods based on the utilisation of economic laws indicates the end of the period of transition to socialism and the beginning of the functioning of an established socialist economy. In all socialist countries in different forms and with different contents, changes in the methods of planning and the management of the economy may take place, implying a certain decentralisation of management.

In a socialist economy, the basic question is of the proper formulation of the role and methods of planning. In a socialist society planning of the economy is active planning that is, planning does not consist only of co-ordination of the activities of various branches of the national economy, it is something more. It is an active determination of the main lines of development of the economy. If economic development under socialism is not to be elemental, but is to be directed by organised society, then planning must be active economic planning.

With regards to active economic planning two problems arise (i) What is the scope of active economic planning and what are the activities in the economy to be planned ? (ii) What are the methods to be used in securing the realisation of the plan? The active character of planning does not require that the plan goes into each detail of economic life. However, the national economic plan, which is to determine the development of the economy must include at least, firstly, the division of national income between accumulation and consumption; and secondly, the distribution of investment among the different branches of the economy. The first determines the general rate of economic growth and the second determines that direction of the development. In addition to these, economic planning must be concerned with co-ordination of the financial and physical aspects of the plan, in particular, co-ordination of the total purchasing power at the disposal of the population and the amount of consumer goods which are provided for individual distribution and secondly, co-ordination of the output of the various branches of the economy.

The second problem is concerned with the methods of securing the realisation of the plan. Out of two possible methods, one is of administrative orders and administrative allocation of resources, that is, the resources, which are necessary for the purpose, both material and financial, are allocated in an administrative way. This was the traditional methods of realising the plan in the past. The second method consists in the use of economic means', that is setting up a system in incentives which induce people to do exactly the things which are required by the plan. In an effective planning of a socialist economy, both methods have to be used, though in different proportions. However, preference should be given to the use of economic means and administrative methods should be limited to such fields where, for one reason or other, economic means are ineffective. Even when the realisation of the plan is achieved by administrative measures, the plan must observe the general economic laws concerning the proportions necessary in the process of production and reproduction. But in sudden upsetting situation, administrative measures have to be used in managing socialist economy.

The fundamental decision of the plan concerning the division of

national income between accumulation and consumption and concerning the basic directions of investments are really of a political character, while the means of implementation must be partly administrative. However, by utilising economic means the socialist planning makes use of the automatic character of people's responses to given incentives. But the automatic processes in socialist planning are not elemental as they are under capitalism. The difference is that in the plan the conditions develop in an elementary way. As Engels said, "The social causes set into motion will produce to an ever-increasing extent the result desired by man." In a socialist economy, the basic decisions of the plan are made centrally. In addition to that the plan may have a subsidiary part, certain decentralised subsidiary plan in order to secure the proper flexibility of the plan. There are two criteria which determine the nature and extent of decentralisation which economic planning can or must have : one determines the possibility of decentralised and the other necessity of decentralisation. Economic planning can be decentralised if it is possible and to the degree it is possible, to set up economic incentives in such a way that the decisions of the decentralised units are the same as the decisions which would be made centrally. And, economic planning must be decentralised in all the cases where the central decision responds to a situation too late. Thus, it is a question of practical importance regarding how many of the decisions are made in the central economic plan and how many decisions are delegated to lower economic units.

In brief, regarding role of planning in socialist economy, Oskar Lange wrote that good and effective economic planning requires a development of economic science, that must be based on scientific economic analysis. This is one of the basic difference between socialist and capitalist economy. In capitalist economy, the economic processes are elemental, where are under socialism they can be directed on the basis of scientific knowledge of the needs and possibilities of the whole national economy.

In socialist countries, planning is the system of managing economic processes involving production, distribution, investment and consumption. Its essence in determining economic targets and methods for their implementation, in particular, the allocation of the means of production and a labour to different uses. As such, planning is an instrument of economic strategy of achieve the optimum growth of national income of the maximum satisfaction of social needs.

The socialist planning system presupposes the existence of a central planning authority which is responsible for the following five specific tasks : (i) determination of the criteria of economic calculation underlying decisions; (ii) determination of quantification of the targets to be reached in the planned periods; (iii) co-ordination of the targets to ensure the internal

consistency of the plan; (iv) determination of appropriate methods to ensure plan fulfilment; and (v) current revision of targets according to changing conditions.

The state planning authority or commission has to work within the confines of the overall social goals and priorities laid down by the party and scale of planner's preferences constitutes a reflection of social needs. The details of the plan are naturally worked out in close collaboration with the different ministries. The role played by the operational level enterprises and branch associations differs according to the degree of centralisation. After the plan is accepted, the targets are disaggregated and transmitted to their respective executors (ministers, branch associations, enterprises). The plan is put into effect by means of directives and indicators, administrative regulation, orientational guidelines and incentives. Directive issued to enterprises can be in the form of instructions for producing and delivering specified quantities of products of defined quality of specified recipients by particular dates. Or alternatively, the targets may be formulated in terms of a certain level of profit or financial reserves or net value of production (value added) without specification of the size of structure of production.

In fact, to be capable of fulfilments, the plan must be above all, internally consistent. This condition is ensured at the construction stage by the method of material balances or of inter branch balances, whereby targets are reconciled with the limiting constraints of available resources. The balances, which are normally expressed in physical units, provide a basis for the financial counterpart of the plan. According to the existing practice in most post-revolutionary (socialist) countries, the overall balance of the national economy comprises the following flows, which have to be harmonised : (i) production, accumulation and consumption; (ii) primary, secondary and final distribution of national income; (iii) personal money income and expenditure; (iv) fixed and circulating assets in the productive and non-productive spheres; (v) utilization of labour resources. Of the two methods of balancing, in the past, the method of material balances was commonly used. Now, with the growing number of alternatives and the complexity of the production, the method of material balances is being replaced with a more sophisticated analysis-the complex method of inter-branch balances.

With the development of post-revolutionary economies the question of optimal planning is assuming significance. There may be a large number of plans which are internally consistent and capable of fulfilment, but once a particular criterion is accepted, there can be only one optimal plan. As socialist countries have been entering higher stages of development, the number of alternative uses for resources and the complexity of economic processes have greatly increased. It is also becoming evident that the extensive growth factors are being rapidly exhausted. If the high rates of

growth are to be sustained and the economic race with the West capitalist world it to be won, it is essential to turn to intensive growth factors, that is to ensure the most efficient allocation of resources. Optimisation of plan is now entering the realm of possibility owing to the remarkable progress made in mathematical methods including linear and dynamic (non-linear) programming, the theory of games, the theory of probability and cybernetic. The utilization of these methods in the process of finding optimal solution in planning is made by employing high memory computers.

Role of Market Mechanism

Under capitalism, the functioning of the market provides the fundamental mechanism for guiding economic processes and that is why, 'capitalist' and 'market' economy are normally regarded as synonymous. Now a days, in practice, in all the capitalist countries the authorities intervene in the market in pursuance of various objectives, but they endeavour to work through the market and do not interfere with it as a system. On the other hand, under socialism, the market mechanism is superseded to varying degrees by planning. Markets for the means of production in the socialized sector, have been virtually eliminated. But elsewhere the market has never completely disappeared and it has existed for certain consumer goods services, in fact, in order to prevent disequilibrium in the markets of consumer goods, the planning authorities have usually resorted to adjusting demand to the postulated supply by manipulating incomes or prices.

In most of the post-revolutionary societies, after 1950s, economic reforms of varying degrees had been adopted. As a result, many more elements of the market mechanism have been incorporated or extended in socialist economies, such as a great role assigned to consumer's preferences, considerable independence of enterprises, profit, the strengthening of material incentives to labour, financial instruments (interest, depreciation, allowances, taxes, tariffs) and considerable degree of price flexibility. The three types of market mechanism, operating in Eastern European socialist countries, were : (i) the market for the distribution of consumer goods, (ii) the financial market; and (iii) the external market.

In a planned economy, the extensions of the role of the market can be justified for three reasons. First, the Socialist economics have traditionally concentrated on macro-economic issues, relatively ignoring the micro-economic level. The market mechanism is a device to overcome the undesirable consequences of central planning in the micro sphere of production and consumption. The delegation to the market of the working out in micro-economic details also relieves the central planners of unnecessary routines work so that they can concentrate on long-run macro problems. Second, the operation of market mechanism is necessary for the

continuous verification and correction of planned decisions. Third, the market provides a salutary discipline in the form of competition, so that production and distribution constantly being adapted to buyers preferences. In brief, the extension of the role of the market, it is said, can improve the performance of the socialist economy by contributing to the minimization of costs and the maximization of desired effects.

It is now widely held by socialist the theoretical and practising economists that there is no real justification for treating plan and market under socialism as mutually exclusive. The idea is that under socialism market mechanism, which may assume diverse forms, can certainly play a complementary role. Social ownership of the means of production and central planning are still retained. The basic proportions and directions of development of macro social importance are centrally determined, such as the divisions of income between accumulation and consumption, the division of consumption between private and social, basic investments and the ensuring or overall financial equilibrium. But, otherwise, the operation of the economy is left to the market forces.

The socialist economic system which is almost completely governed by the market mechanism is known as market socialism. The idea was first put forward by Oskar Lange in 1930 but its details had been developed and improved later on by such economists as W. Brus (of Poland), P. Erosos (Hungary), E.D. Kaganove (of the USSR), Ota Sik (of Czechoslovakia), and J. Sirotkovich (of Yugoslavia). Whilst it is not difficult to put forward abstract models linking planning and the market, it is a different matter to devise practical and workable models, of the interaction and organic coalescence of two under specific economic conditions. In most of the socialist countries there is a strong reluctance to commit the economy too much to the anonymous and 'anarchial' market forces.

In a post-revolutionary country, a highly centralized system of economic planning and management is a historical necessity in the early stages of socialist economic development. It becomes imperative to have swift and profound changes in the structure of the economy to utilize under-employed resources and to create new sources of raw materials, capital and skilled labour. Moreover centralized planning and management also enable the concentration of resources in key industries for initial take off, crucial balanced development. The initial backwardness also means that there is a lack of comprehend managers, so that the centralized detailed tutelage provides practical management assistance to enterprises. In the initial stage of economic development, quantity is more important than quality and the absence of the market is not a apparent loss. As far as the advanced stage of the socialist economic development is concerned, it is held that whilst economic planning must be retained, and extension of the role of the market

is possible. The operation of the market mechanism can; (i) ensure adaptation of production to buyers needs and thus, lead to the development of buyers market (ii) evolve and maintain rational price structures conducive to the optimization of production of distribution (iii) create conditions for rapid technological progress; and (iv) accelerate growth in labour productivity. But there is very strong dissident opinion on this approach. The majority of the socialist economists believe that the extension of the role of the market must be paralleled with the strengthening of central control (democratic speculation, unemployment, misleading advertising, etc.) from raising their ugly heads.

Thus, in centrally planned (socialist) economies, central planning serves as the main mechanism for allocation resources while the role of the market is limited and auxiliary, the interaction between planning and market mechanism, in the Eastern European countries can be summarized as follows :

Wages in the socialist sector depend entirely on the size of the national income disposable, on its distribution for consumption and accumulation and on the distribution of the total wage fund among various sectors and jobs. The demand for and supply of labour force has little effect on the level of wages.

Investment decision in the state sector are taken, depending on the importance of the project, by the central, sectoral and regional planning authorities and only certain minor projects are realized by the enterprises. The volume and structure of the investment goods produced and used up in the state sector, are determined by the development directions laid down in the long and medium term plans. Most of these goods are allocated directly to various sectors and purpose according to the anticipated needs so that the market exerts no influence on their volumes and structure. The same applies to the raw materials used for producing these goods. Consequently, there is no necessity for an equilibrium price. However, prices are often used as instruments for encouraging or discouraging the planners at various levels to the adoption of certain solutions.

The transfer of producer goods between the various producing sectors (state, co-operative, private) and between producing sectors and the population is based on the market relations. The consumer's position, in both the long and the short-run, is largely determined by macro-economic decisions such as those concerning the rate of growth of national income and the sectoral composition of investment. On the other hand, consumers may choose among the goods available in the market, depending on income possessed and on prices. In this sense, consumers appear in the market as a factor accepting or rejecting the current production of consumer goods and, in a way, the investment decisions taken in the previous development

plans.

The prices of the goods produced by the state sector, depending on their importance for the consumers in the national economy, are fixed by the central, sectoral and regional authorities. Only a small range of prices is fixed by the enterprises, but the prices of essentials are fixed centrally and are uniform throughout the economy. While setting prices of the consumer goods, the planning authorities take into account the level of the production costs, the situation in the market are transferred to the consumers through the state and cooperative wholesale and retail trade agencies. A relatively small part of the sales had/have been done (in some countries only) through the private shops or as directed sale by producers to consumers.

The mechanism for shaping the current production of consumer goods produced in the state sector differ widely depending on whether the relations between producers and the central planner are based in directive or an indirect policy measures, that is, whether the directive-type or parametric-type of management is adopted under the directive system of management is : (i) the volume and structure as well as the prices of the goods produced are fixed by the central planner; (ii) prices have no impact on the volume and assortment of goods produced, but they are used, however, as an instrument for influencing the consumption pattern; and (iii) prices must be fixed at the equilibrium level of demand for and supply of consumer goods. In the parametric system of management, the producers come much closer to the market. It assumes; (i) the central planner expresses through indirect policy measures, in particular, through the active price-setting policy; (ii) the producers themselves decide about the volume, structure and quality of the goods produced based on the signals received from upper organizational levels of the planning apparatus and from the other enterprises (home trade and foreign trade agencies, suppliers or raw materials, etc.); and (iii) prices fixed by planning authorities play an active role in influencing both the consumer's and the producer's choice and they serve the producers as the basic parameters indicating what to produce, how much and of what quality.

The price mechanism to be effective, in a economy, must fulfil some requirements; First, the price system should be comprehensive and should secure proper relations between prices of various commodities. Secondly, the pricing policy should be flexible enough to react property to changes in demand and production technology. Thirdly the prices should serve the enterprises as the parameters of choice, given from outside, that is, the prices cannot be directly influenced and changed by the producers. However, by that it should not be understood that all the prices must be necessarily be fixed at the central level. On the contrary, a considerable range of prices

may be local or sectoral organs, of course, with in the framework of the general pricing policy, the principles of which should be laid down by the central bodies.

To sum up: (a) the market mechanism in the centrally planned (socialist) economies is practically limited to consumer goods market; (b) this market is to a considerable extent controlled by planning and current socio-economic policies; (c) the prices, as an instrument of market mechanism, is used by planners and policy market for influencing the production patterns; and (d) the way the socialist state intervenes in the operation of the market depends on the social structure of the national economy and the type of management adopted in the state sector.

NATURE AND PROCESS OF PRIMITIVE ACCUMULATION

The question of primitive accumulation is a very fundamental issue for economic development and social transformation in a society. The capitalist as well as socialist development of the society depends, in a vital way, on the nature, process and level of primitive capitalist accumulation and primitive socialist accumulation, respectively.

In his critical analysis of capital production, Karl Marx outlined the secrets of accumulation for capitalist development. He wrote : "Through capital surplus value is made and from surplus value more capital. But the accumulation of capital pre-supposes the surplus value which pre-supposes capitalistic production; capitalistic production pre-supposes the pre-existence of considerable masses of capital and of labour power in the hands of producers of commodities. The whole movement, therefore, seems to turn in a vicious circle, out of which can only be get rid of by supposing a primitive accumulation preceding capitalistic accumulation; an accumulation is not the result of the capitalist mode of production, but its starting point."

The capitalist system pre-supposes the complete separation of the labourers from all property in the means by which they can realise their labour. As soon as capitalist production is one on its own legs, it not only maintains this separation, but reproduces it on a continually extending scale. The process, therefore, that clears the way for the capitalist system can be none other than the process which takes away from the labour the possession of his means of production; a process that transforms, on the one hand, the social means of subsistence and of production into capital, on the other, the immediate produces into wage labourers. The so-called primitive, accumulation, therefore, is nothing else than the historical process of divorcing the producer form the means of production. It appears as primitive, because it forms the pre-historic stage of capital and the mode of production corresponding with it.

In the history of primitive accumulation. Marx said, all revolutions are epoch-making that act as levers for the capitalist class in course of formation, but, above all those moments when great masses of men are suddenly and forcibly torn from their means of subsistence and hurled as free and "unattached" proletarians on the labour market. The expropriation of the agricultural producer, of the peasant, from the soil, is the basis of the whole process. The history of this expropriation, in different countries,

assumes different aspects and runs through its various phases in different orders of succession and at different periods.

The economic structure of capitalist society has grown out of the economic structure of feudal society. The dissolution of the latter free the elements of the former. Capitalist production arises and develops within the womb of feudal society which has been half disintegrated by commodity economy, many decades before the bourgeois revolution. This fully applies to the development of merchant capital as the necessary preliminary stage of capitalist production. Capitalism was able to pass through its period of primitive accumulation in the age of absolutism in politics and of simple community production and feudal serfdom relations 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. In other words, bourgeois revolution begins after capitalism has gone far in building up its system in the economic sphere. 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. For capitalism, merchant capital could develop in the pores of feudal society. The first capitalism enterprises could function without coming into irreconcilable contradiction with the existing political-structure and property forms. On the contrary, the complex of 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. These are the views of Preobrazhensky in his pioneering work on to question of primitive accumulation.

For capitalist accumulation to begin, the following pre-requisites were needed : (i) 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; (ii) the presence of a body of wage-workers and (iii) a sufficient development of the system of commodity in general to serve as the basis of capital commodity production and accumulation. In fact, a certain accumulation of a capital called the primitive accumulation, in the hands of the specifically capitalist mode of production.

The question arises of how matters stand in this connection with primitive socialist accumulation. The primitive capitalist accumulation could take place on the basis of feudalism, whereas socialist accumulation cannot take place on the basis of capitalist. Consequently, if socialism has a pre-history, this can begin only after the conquest of political power by the proletariat. In socializing large-scale production the proletarian state by that very act changes from, the start the system of ownership of the means of production. The working class acquires by revolution only that which

capitalism already possessed in the shape of the institution of private property. Primitive socialist accumulation, as a period of the creation of the material pre-requisites for socialist production, 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. But the organization of capitalist manufacture required the presence of substantial resources, created not in manufacture but before it, created in petty production and plundered from the small producers by merchant capital. To an ever greater extent, the previously accumulated capital the primitive accumulation, was needed for large-scale machine industry to craft production a period of prolonged exploitation of petty-production was needed. In the same way, Socialist accumulation, that is, accumulation on the basis of a socialist economy, can begin only after the economy has passed through the stage of primitive accumulation. Just as for the functioning of factories with machine technique, so also for enabling the complex of the state socialist economy to develop a certain minimum of previously accumulated means in the form of natural elements of production is needed.

But about primitive accumulation there is an extremely important structural difference in principle between capitalism and socialism. For capitalist manufacture to show its superiority to craft production. It was not all necessary for an enormous number of manufactures to be set up all at once. Consequently, the amount of previously accumulated capital could be quite small in relation to the size of the national economy as a whole. Moreover, the capitalist enterprises could also arise in the petty bourgeoisie economies where neither the technical nor the economic pre-requisites of the new mode of production existed because all the pre-requisites were potentially existed and required only an external stimulus by foreign capital. In contrast with this, on partial or insignificant amount of socialist accumulation is incapable of solving the basic problem of socialist organization of production. In particular, we need accumulation which (i) enables the state economy to achieve the level of present day capitalist technique (ii) 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 and; (iii) ensures an advance by the entire complex and not only the particular parts of it.

Thus, socialization of what has been accumulated by capitalism not only concludes the period of socialist primary accumulation, but on the contrary, begins it. The period of this accumulation can begin only after the conquest of power by the proletariat and the initial act of accumulation, that is the socialization of the main branches of the economy. This primitive

socialist accumulation has to take place simultaneously with the beginning of the transition to socialist production and with accumulation in the socialist complex itself. Although primitive socialist accumulation is chronologically interwoven with socialistic production and to some extent with socialist accumulation, nevertheless the economic essence of this process in relation to socialist accumulation, nevertheless the economic essence of this process in relation to socialist production. In fact, the distinction of primitive socialist accumulation from socialist accumulation itself is of very great significance in principle.

By socialist accumulation we mean the addition to the functioning means of production of surplus product which has been created with 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. On the other hand primitive socialist accumulation means accumulation in the hands of the state of material resources mainly or partly from sources lying outside the complex 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 at the expenses of the non-state milieu greatly predominates in this period. For this reason, we can call this entire state as period of primitive or preliminary socially accumulation. This period has its special features and its special laws. In this period to the laws of primitive socialist accumulation are subordinated all the basic processes of economic life within the range of the state economy. Consequently, Preobrazonsky wrote, "We can understand nothing of the essence of an economy, in transition to socialism, if we do not discover the central role which is played in the 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 amount of the country's surplus product which is alienated for expanded socialist reproduction."

Methods of Primitive Capitalist Accumulation

In order to compare the main methods of primitive capitalist accumulation with the methods and process of primitive socialist accumulation, it is necessary to consider not only the period preceding capitalist production but also the epoch of the initial capitalist production. Because, this primitive accumulation, as accumulation from outside the range of capitalist production, was also carried on, under various forms, after the appearance of capitalist enterprises.

First, the whole period of the existence of merchant capitalist 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 became a necessary agent of production can be regarded as period of primitive accumulation. It was a period of systematic plundering of petty production of non-capitalist forms of economy.

Second, form of plundering which was of very great importance was the colonial policy of the world-trading countries. It was plundering 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 and the infinitely varied system of crude cheating. To this category also being all methods of compulsion and plundering in relation to the peasant population of metropolitan countries. The robbery of small peasant production in the interest of primitive accumulation assumed different forms. In this regard, the typical methods were, first, plundering of the self-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.

Thirdly, the primitive capitalist accumulation also became possible because of plundering of petty production by state taxes. Out of their receipts from taxation the absolute states encouraged the development of manufacture, by giving subsidies to merchants who had become industrialists or to nobles who had transformed themselves into manufactures. This support was rendered especially to manufactures who is one way or another, served to supply the army. 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.

Fourthly, an important role in the process of primitive accumulation is played by the system of state loans. Under it there takes place the transfer 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 loans.

Fifthly, the conquest of the necessary territory, trade routes, etc. is also nothing else but a line in the chain of primitive capitalist accumulation. Without the necessary territorial pre-requisites the development of merchant capital and its transition to industrial capital could not be carried through successfully. From this standpoint the peasant helped the process of primitive accumulation not only when part of the rent be 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.

Finally, the state power played a big role in the formation of national

states as areas for the activity of merchant capital. On the role of the state and in particular or the role of state pressure in the period of primitive accumulation. Marx wrote that the methods of primitive accumulation depend in part on brute force of the state. "They all employ the power of the state, the concentrated and organized force of the society, to hasten in hot house 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."

Methods of Primitive Socialist Accumulation

The period of primitive socialist accumulation is the most critical period in the life of the socialist state. In this period, the socialist system is not yet in a position to develop all its organic advantages, but it inevitably abolished at the same time a number of the economic advantages characteristic capitalist system. How to pass as quickly as possible through this period, how to reach as quickly as possible to moment when the socialist system will develop all its natural advantages over capitalism, is a question of life and death for the socialist state. 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 of which, however, does not depend on the free will of the proletariat. Regarding the methods of primitive accumulation, let us see how matters stand in this connection in the period of primitive socialist accumulation.

First, as regard with 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 in principle all the forcible methods of capital extraction in this sphere. This source of primitive accumulation is closed to it from the very start and forever.

Secondly, the matter is different in the case of the alienation in favour of socialism, a 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 lay a very great, a directly decisive role in peasant societies.

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 the exploited labour. Moreover, if additional accumulation at the expense of petty production had not continued alongside capitalist accumulation at the expense of petty production power of the proletariat, then the transition to capitalism would have proceeded at a small pace. 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 a part of the surplus product of the peasantry and the handicraftsman, without making deductions from capitalist accumulation for the benefit of socialist accumulation. The task of socialist state consists here not in taking from the petty-bourgeois producers less than secured to the petty production, on the basis of industrialising the country and intensifying agriculture.

Thirdly, another source of primitive socialist accumulation can be taxation on private capitalist profit, that is, systematic deductions from capitalist accumulation. It is a method 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 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 the same way the taxation of the class of rural kulaks who employ hired as means of accumulation at the expense of the semi-proletarian labour of the countryside. Again, in so far as the socialist state taxes traders, buyers, capitalists and kulkas, who obtain part of their income from the peasantry, we have accumulation at the expense of the peasant economy.

Fourthly, as regards state loans, which form a very important channel of primitive capitalist accumulation, their role is different in the period of socialist accumulation. In this periods, there can be two loan system : semi compulsory loans and credit operations of the type of normal loans carried out according to the bourgeois system. The loans of the second type can serve as a powerful stimulus to socialist accumulation, system contribution a large percentage to the socialist accumulation fund than the contribute to the capitalist accumulation fund.

Fifthly, the issue of paper money under a system of declining rates of exchange is one of the forms of taxation and it is also one of the methods of primitive accumulation. 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. When the state is an organ which rules the country and is 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.

These five methods of primitive socialist accumulation are based, to a very large extent, on non-economic factors. In addition to these there are some important methods of primitive socialist accumulation of capital by way of economic channels. In this respect, we must distinguish between

accumulation, which is carried out in the production itself, at the expense of the surplus value created in enterprises belonging to the proletariat and on the other hand, the exchange of the smaller quantity of labour by one system of economy or the country for large quantity of labour furnished by another system of economy of another country. About the primitive accumulation for the period of the capital mode of production Marx wrote : "The favoured country recovers more labour in 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." In fact, other things being equal, the metropolitan country with a higher technique and higher wages and at the same time lower prices, is in more favourable condition for exchange than a colonial 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 his basic difference in the situation of the colony and that of a metropolitan country.

Socialism arise historically on the basis of monopoly capitalism and not of free competition capitalism. Primitive capitalist accumulation was based on not only the exploitation of petty production by taxes, not only on feudal exploitation which was not a phase in capitalist accumulation, but was also marked 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 of 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.

Regarding the factors in the period of preliminary socialist accumulation, the difference from the period of primitive capitalist accumulation consists, first, in the fact that socialist accumulation has to take place at the expense not only the surplus value of petty production but also of the surplus value of capitalist economic forms. Secondly, the difference is conditioned by the fact that the state economy of the proletarian 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 drawn of its history.

In the first place, railway (or transport) carriages can become one method of primitive socialist accumulation economic basis but it is possible only when transport ceases to be source of deficit and becomes a profitable undertaking. Then it becomes possible to have a reconstruction of railway (or transport) charges, based on the distribution 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.

A second powerful level of primitive socialist accumulation is the monopoly of the banking system. In the period of primitive capitalist accumulation unsecured credit was a means whereby the national income was re-distributed 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. But in the period of preliminary socialist accumulation the state's credit system operates more the field of redistributing the free resources of the country than in that of redistributing the national income. Redistribution from private economy into the socialist sector can occur directly only when the resources of private economy, accumulation 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 sum 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 to private economy. In fact, in the initial period of transition to socialism, the entire credit policy is subordinated to the law of primitive socialist accumulation.

Thirdly, for exchange in the economic system, that is an internal trade, trade has a role in a primitive socialist accumulation. Here we have to distinguish : (a) exchange within the sector of the state economy itself, (b) exchange within private economy, and (c) exchange between the state sector and the private sector. As regard the first case, there can be no positive task for socialist accumulation here. The economies of exchange consist in this sphere merely in exchanging economically, in keeping down the costs of the circulating process because these costs are a direct deduction from the surplus product of state economy. As regards the second case, that is, exchange with the private economy, there socialist accumulation is possible. 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. In this way, accumulation take place out of the fund of one system of economy into that of the other. Moreover, taxes can be imposed on trade within private sector to increase primitive socialist accumulation. In the third case, that is, exchange between state economy and private economy, socialist accumulation take place out of the fund of one system of economy into that of the other. Moreover, taxes can be imposed on trade within private sector to increase primitive socialist accumulation. In the third case, that is, exchange between state

economy and private economy, socialist accumulation faces both purely negative tasks, with exchange within its own circle and also primitive ones, that is nourishment of the state economy at the expense of non-socialist milieu. In the process of exchanging its own products, the state economy cannot give the private capital what essentially belongs to the socialist sector itself. In the movement of values from private economy into the state sector struggle of the organs of the state trade against private capital is to a considerable extent, a struggle for the surplus product of private economy.

Fourthly, we can consider the question of foreign trade and the system of socialist protection. The institution of the monopoly of foreign trade is of exceptional importance in the entire system of socialist accumulation. It is, first, itself one of the organs of socialist accumulation. Secondly, it is one of the most important organs protecting the 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 socialist society. Foreign trade, an instrument of social accumulation operates as peasant economy produces more and more commodities and as the trading links increase between the socialist economy and world economy. With the increase in the size of exports 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 country side on the authority which links the peasant economy with the foreign market. Not only this, foreign trade is an important instrument for obtaining surplus profit in the foreign market.

Fifthly, let us take customs policy as a source of primitive socialist accumulation. The customs policy in relation to imported goods means levying of duties on exported goods by the state organs. This source of accumulation secures a different distribution between different state organs of one and the same sum of merchant's profit or income from trade circulation, of the cost-revolutionary economy, from the operation of the law value of the world economy and safeguarding the socialist industry from ruin under the blows of foreign competition.

Finally, from the standpoint of primitive socialist accumulation, the price policy in relation to industry is highly important not only for accumulation but also for the normal course of production in general and the political relations between the proletariat and the peasantry. The fundamental theoretical question in this regard is this; is equivalent exchange between the state economy and non-socialist milieu possible in general? There are three possibilities : (i) the state economy receives less value from the non-socialist milieu than it gives; (ii) prices of the products of state industry are so calculated that in exchange with the private economy

there is an exchange of equivalents, that is neither of the economic system exploit the others; and (iii) a price policy consciously calculated as to alienate a certain part of the surplus product of private economy in all its forms. In the first case, we have a steady decomposition of large-scale socialist production and a gradual selling off its products below cost. The transformation of this price policy into a system would mean a gradual dissipation of large scale industry and the triumph of petty production over large scale production. The second situation is in general possible only as a brief episode. To consider such a situation normal, is to suppose that the socialist system and the system of private commodity production. Included in a single national economy, can co-exist side by side on the basis of complete mutual economic equilibrium. Such equilibrium, even if possible, cannot exist for long, because one system of economy must out the other. In order to realize primitive socialist accumulation, the exchange with advantage to the socialist form is possible only with an appropriate price in relation to the products of state industry and should make accumulation possible at the expense of the non-socialist milieu through non-equivalent exchange of values. So the third case is not only possible but also inevitable if accumulation through the price policy is to be realized. A price policy consciously calculated so as to all the certain surplus products of private economy is possible because the state economy of the proletariat arises, historically, on the basis of monopoly capitalism. The obstacles which state economy encounters on this account arise not from inadequate economic power to carry out this policy but from other causes, namely, treated to combine this policy with a policy of reducing prices and the state not being a monopolist in all branches of industry. In fact, the price policy must be calculated in such a way that state accumulation does not automatically entails private capitalist accumulation.

**PROCESS OF ACCUMULATION UNDER CAPITALISM
AND SOCIALISM**

The question of accumulation of capital for socio-economic development is one of the basic problems faced by any social system. The nature of the process of accumulation under capitalism and socialism defines and explains the forms of existing and emerging class relations among people in these social economies.

Capitalist production arises and develops within the structure of feudal society and development of capitalist commodity production help in disintegrating that society. Before the bourgeois revolution in Europe, capitalism, has gone for building up its system in the economic sphere of feudal society. 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.

Historically, primitive capitalist accumulation took place on the basis of feudalism. But 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 political power by the working class, the proletariat. The act of socialization of what has been accumulated by capitalism not only does include the period of socialist primary accumulation, but on the contrary, begins it.

(1)

Some of the important methods of primitive capitalism accumulation were plunder of non-capitalist forms of economy of petty production of peasants and rural handicraftsmen, plunder of newly discovered territories overseas through the colonial policy of world trading countries, plunder through rate of interest on the money lent to the ruined small scale rural producers, plunders of petty production through state taxes and through the system of state loans. The primitive capitalist accumulation was based not only on feudal exploitation, which was only a phase in capitalist accumulation, but was also market by a system of unequal market exchange.

In addition to these methods which are based on non-economic pressure and economic basis, the capitalist accumulation bases itself in the extraction and appropriation of surplus value created by the workers in the process of capitalist reproduction. In this production process the

appropriation of surplus value is raised by lengthening the working day and in intensifying the labour process, that is, by the production of absolute and relative surplus value. In the entire process of capitalist accumulation the state played its historical role. The concentrated and organised force of society, in the form of state power, was used in order to hasten the process of transformation of the feudal mode of production into the capitalist mode and to shorten this transition.

On the other hand, the world economy is the ideal framework for solving the crucial problem of socialist accumulation. Within this framework a vast operation of worldwide redistribution of resources could be carried through without any sacrifice of consumption being implied for any people. But this will be possible only after the victory of the proletarian revolutions on the world scale, only after global revolution.

As regards colonial plundering, this course of primitive accumulation is closed to a socialist state, following the policy of inequality between nationalities. The primitive socialist accumulation must take place at the expense of surplus product of petty producers and surplus value of capitalist economic-forms. And out of these two, mainly at the expense of the latter. The rationale of accumulation at the expense of non-socialist forms lies in the fact that 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. In the post revolutionary society the rationalization of the whole economy increase productivity even of the petty-producers, the test of proletarian state consists, here in taking from the petty-bourgeois producers, less than and only a certain extreme cases equal to, what capitalism took. The policy of taking more than capitalism took means the compulsory ruin of the petty production. This policy only suits the capitalist system, whereas in the socialist system the transition from petty-production to large-scale socialist production should come through ideological transformation of the petty producers, rather than through their economic ruin.

The other related source of accumulation is the systematic deductions from capital accumulation, a kind of tax on private capitalist profit, to the extent it exists in the proletarian state. This issue of paper money under a system of declining rate of exchange, which is a form of compulsory taxation on the purchasing power, is also one of the methods of primitive socialist accumulation. The wages of the workers, both in industry and agriculture, should be protected against the declining purchasing power of the money earning by introducing the system of rationing and payment in kind to the workers, if necessary.

Immediately after the seizure of power by the proletariat when public services are controlled by the state, they are to be further developed and the public should continue to pay nominal charges for the services although

now, at considerably reduced rates. This can however, be a minor source of primitive socialist accumulation. One of the immediate tasks of the proletarian state is the amalgamation of all banks and thus establishment of state monopoly in the banking system. The monopoly of the proletarian state over the banking system becomes a powerful lever of socialist accumulation. The bank-credit can become a powerful mobilizing the sources of society and distributing them, from private economy to the socialist economy by the channels of expanded socialist reproduction. In fact, the entire state credit policy of the state banking system should be subordinated in the beginning, to the law of socialist accumulation.

For socialist accumulation from the internal trade (as it exists immediately after the seizure of power by the proletariat), three types of exchanges should be distinguished exchange within state economy sector. Exchange within private economy sector and exchange between the state sector, and private sector. As regards the exchange within the state sector, the economics of exchange consist in this sphere in exchanging economically, in keeping down the costs of the circulation process through its organization by the state sectors own force. Next, the primitive socialist accumulation can come from exchange within private economy itself, both by non-economic methods of taxes on trade of the products of the private sector and by economic basis of trade-exchange. For accumulation through internal trade, the last sphere of exchange between state economy and private economy should be considered in two processes : the movement of the commodities from the state economic sector to the non-socialist sector and the movement of the commodities from the private non-socialist economy to the state (socialist sector). In both the cases, (primitive) socialist accumulation is realized if the state sector nourishes itself, at the expense of the non-socialist economy. In the period of transition to socialism there is always a struggle against private economy and then by eliminating the private capital from the sphere of private economy and then by eliminating the private capital from the sphere of private economy through the development of state economy and undermining the private producer's economy.

Also the monopoly of foreign trade by the proletarian state is an important instrument of socialist accumulation. In newly emerged proletarian society, the greater the export of rural products (mainly of private sector), the greater is economic dependence of the countryside on the authority which links peasants economy with the foreign market. The imported commodities or instruments required by private sector and private producers and also imported consumer goods can be taxed through the custom policy followed by the proletarian state, having monopoly of foreign trade.

The price policy of post-revolutionary society in relation to industry and agriculture is a very sensitive source of accumulation, because it determines the political relation of alliance between the proletariat and the peasant. To what extent socialist accumulation is possible through the general price policy depends on the exchange relations between the state economy and non-socialist segment of the economy. When an appropriate price policy in relation to products of state industry based on non-equivalent exchange of value with the non-socialist economy is consciously designed, the primitive socialist accumulation becomes possible. Such a price policy which does not automatically entail private capitalist accumulation, rather cuts at the roots of this private accumulation and petty private production, has many advantages, mainly in collection, over forms of direct and indirect taxation of private production.

The normal accumulation on a production basis, is an increase in values created on the basis of expanded reproduction, within the system itself, by the forces of a given social system. The exploitation of labour power through absolute surplus values in the early stages and then through relative surplus value was the principal source of normal capitalist accumulation on the basis of production. The capitalist state helped and stood on guard over capitalist accumulation. As regards the normal socialist accumulation on the basis of production in the state economy, the source is again the labour of worker class. Each worker must receive an amount as wage, a little less than the value of the products he created. But whereas capitalist accumulation is a forced burden on labour, socialist accumulation is a necessity for the working class, it is an understood necessity.

One important question in this context is the attitude towards labour power in the process of capitalist and socialist accumulation. The primitive or primary as well as the normal socialist accumulation begins only after the seizure of political power by the proletariat, only after the basic means of production are socialized and development process started in a planned manner. Therefore, in the post-revolutionary society, the labour-power, unlike under capitalism, cannot be treated as a purchased commodity and an object of exploitation. This, no doubt, constitutes a definite barrier to the extent of socialist accumulation; a barrier which capitalist industry or economy did not know in its first period of development. But the useful employment of manpower, the revolutionary enthusiasm and self-restraint of the working class after the seizure of political power helps in the real accumulating in the new society. The enthusiasm and the revolutionary spirit of the proletariat and other working people should be maintained over the entire period of transition, with increasing stress on moral incentives as against market on material incentives. In case, the proletarian revolution succeeds in an industrially advanced capitalist country then

along with improvement in the living standard of the general masses, rapid socialist accumulation takes place because of elimination of wastage of capitalistic society. If the proletarian revolution succeeds in a backward country then the problems of accumulation are serious and it implies the revolution of the potential surplus as productive accumulation. The poverty of the under developed countries does not arise so much from the stand point of economic growth.

In fact, the question of accumulation is the basic question of any social formation. It underlines and defines the class relations and their interaction in every society. It is particularly so under capitalism and socialism.

(II)

The fundamental law of social accumulation is the mainspring of the entire socialist economy. 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. This law can be formulated in preobrazhensky's words, in the following way.

The more backward economically petty-bourgeois peasant, in a particular country is, which has gone over to the socialist organization of production, the smaller the inheritance received by the socialist accumulation fund by 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 products of pre-socialist forms of economy and the smaller will be the relative weights of accumulation on its own production basis, that is, the less will it be nourished by the surplus product of 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 organised 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 be 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.

Apart from this, Ernest Mandel views that world economy is the ideal framework for solving the crucial problem of the period of transition to socialism, that is of socialist accumulation. Given this framework socialist economy would be able to exploit to the full advantages of the world division of labour, deciding on the world scale optimum locations for industrial,

mining and agricultural activity, which would make it possible to save the maximum amount of both living and dead labour. Within this framework a vast operation of world-wide redistribution of resources could be carried through without any sacrifice of consumption being implied for any people. With this redistribution of resources at world scale, the world rate of accumulation and especially the rate of industrialization of the underdeveloped countries would be considerably increased and as a result, it would become possible to raise the standard of living of all the people world over.

Within the framework of a world plan of socialist economic development new sources of socialist accumulation will emerge. To solve all problems of the transition-period of fresh advance of productive force will be needed. In this context, if socialist revolutions succeed in the industrially advanced countries, this advance can be made without a lowering of the living standards of the masses. On the contrary, this advance can go forward in country with a rapid improvement in the living standard if the various forms of waste implicit in capitalist economies are eliminated through socialist planning and reorganisation. Then the chief additional sources of socialist accumulation in the industrialized countries can be in the forms of : (i) permanent full employment of existing productive forces; (ii) elimination of extravagant luxury expenditure of the top and upper middle classes; (iii) reduction of distribution costs; (iv) rational organization of industry; and (v) freeing of the creative power of the workers.

The task of solving the problems of the transition period, that of socialist accumulation in an underdeveloped country, without substantial aid from the industrially advanced parts of the world, is very difficult. It implies dramatic choices such as are illustrated by the history of the erstwhile USSR. In fact, the social surplus in underdeveloped countries is a higher, not a lower proportion of the gross national product than in the industrialized countries. The poverty of underdeveloped countries does not arise so much from the inadequacy of this surplus product as from the bad use made of it, from the standpoint of economic growth.

Following Paul Baran, we can list the following slices of the social surplus product of the underdeveloped countries which are partially lost to the productive accumulation (investment) fund; (i) The agricultural surplus product taken by the landlords, the bulk of this is spend unproductively; (ii) The share of the agriculture surplus product taken by the usurs and traders who live in the rural areas. This usually goes into buying land, into an increase in the quantity of usurer's or merchant's capital, into boards, or into luxury consumption; (iii) The share of the social surplus product which is exported from the country by foreign firms, a very large share in some colonial countries; (iv) The share of social surplus product taken and

transformed into unproductive consumption by the lumpen bourgeoisie and the state bureaucracy by way of corruption, crime and debauchery; (v) Alongside the actual surplus product there is a huge potential surplus product which many underdeveloped countries can mobilize, the potential represented by labour which is idle-owing to underdevelopment in the countryside.

(III)

Accumulation is a Marxian term corresponding to the western concept of investment in this broad sense. It is the part of the national income which it produced but not consumed during the period or year in question. In a socialist country, the method needed to determine the respective shares of producer's consumption and of the investment fund is to be deducted from an analysis of the gross product in the following terms; (a) Funds for renewal of productive fixed capital; (b) Productive consumption fund; wages and salaries of the producers and their families, (including pensioners, sick people etc.), plus collective consumption which raise the standard of living, plus replacement of producer's housing, (c) Unproductive consumption fund; salaries plus collective consumption by society as a whole which does not increase the standard of living of the producers (administration, armed forces etc.) (d) Minimum necessary reserve fund (stock, etc.) and (e) Potential investment fund; what is left to the gross product after above deductions.

According to the established classification, accumulation in a socialist economy consists of : (i) the stock of added fixed assets in the sphere of material production; (ii) the stock of added fixed assets in the non-productive sphere; (iii) net addition to the stocks of circulating assets in the processing of production; (iv) net addition to reserves held idle as an insurance against unexpected contingencies, and (v) the foreign trade balance. As in Western capitalist practice, depreciation (that is, amortization) is reduced from gross investment so that only net investment is included in accumulation.

Under capitalism, the division of national income between investment and consumption is overwhelmingly determined by private producers and consumers. Private firms base their investment decisions on expected profitability. Savings, on the macro scale, accommodate themselves to investment, and are conditioned by the inequalities in the distribution of national income and wealth. Although governments endeavour to influence and supplement the private sector, the intervention is not a comprehensive and systematic basis, and the proportion between investment and consumption is not consciously determined.

In a socialist economy, accumulation is centrally fixed on a planned basis. Neither interest rate nor profit is allowed to interfere with the size and broad distribution of accumulation at the macro economic level.

However, interest and profit are now becoming important instruments of promoting the most economical implementation of investment undertakings at the operational level. As accumulation is centrally planned and for a number of years ahead, it is much more stable from year to year than is normally the case in capitalist countries.

The decision on the proportion between accumulation and consumption is largely political in a socialist country. It is governed by the available resources and long-run macro social objectives, such as industrialization, defence preparedness and the postulated rate of growth. The proportion of national income (net material product) devoted to accumulation is usually fixed within the range of 20 to 30 per cent, annually. Although the precise degree of difference may be disputed, there is little doubt that socialist countries generally devote a higher proportion of their national income to accumulation than capitalist countries do. This is made possible by the mono-party system of government, central planning and the social ownership of the means of production. In the early stages of socialist development current consumption is restricted by manipulating the wage fund and social consumption on the one hand, and retail prices on the other. It is assumed by the political authorities that this sacrifice is warranted, and indeed essential, in the initial stages of industrialization; when it is necessary to develop industries noted for high capital absorption.

In socialist economies, a distinction is made between productive and non-productive accumulation. The former comprises additions to fixed and variable assets in the sphere of material production and it is referred to as 'productive investment'; or simply investment. The balance of accumulation consists of durable consumer goods for individual as well as for collective consumption, such as private housing and household efforts, public buildings and equipment, educational, social, cultural and sporting facilities, and defence installations and materials. In general productive investment constitutes about three-quarters of total investment, the remaining one quarter being classed as non-productive. As socialist countries proceed to higher stages of economic development, it can be expected that the share of 'productive' investment will decline in favour of non-productive ones more directly relevant to the improvement in living standards. Productive investment is directly related to socialist reproduction in the post-revolutionary society. It denotes a continuous process of production where resources are used up partly to meet current consumption needs and partly to recreate resources to enable continued production in the future.

**PROCESS OF REPRODUCTION IN CAPITALIST AND
SOCIALIST SOCIETIES**

The constant repetition and renewal of production in society in general is called social reproduction. It involves the reproduction of social capital and of the aggregate social product. Individual capitals in the aggregate form are called social capital. The aggregate social product is the total mass of material goods produced over a definite period usually a year. In its physical form, the social product consists of use values divided, (according to the economic purpose they serve) into means of production and articles of consumption. The means of production (means of labour, raw materials and auxiliary materials) are utilised for further production. The articles of consumption are used for the personal non-productive purpose. Production of all classes of the society falls into two departments, viz. Department-I of production of means of production and Department-II of production of articles of consumption.

The gross social capital is the aggregate of the individual sums of capital in their inter-relation which emerges in the process of production on the basis of the social division of labour.

The process of social reproduction can only proceed normally if all capitalists sell their commodities and find the means of production and labour power they need in the market and if all workers and capitalists can acquire articles of consumption in the market. Consequently, the reproduction of social capital is closely bound up with the problem of realisation of the gross social product, that is, of all the commodities produced by society. The entire mass of material wealth (machine tools, fuel, grain, clothing, etc.) produced by society over a definite period forms the gross social product. The gross or aggregate social product which becomes a commodity under capitalism can be regarded from the view point of its use value. Its value equals $C+V+S$, where 'C' is the value of the consumed means of production, 'V' is the reproduced value of the variable capital, and 'S' is the surplus value. As regards its physical form the gross social product is made up of the means of production (Department-I) and articles of consumption (Department-II), The problem of realisation, Lenin wrote, it is to establish how each part of the capitalists product in terms of value (constant capital, variable capital and surplus value and in its material

form) means of the production and articles of consumption find in the market an equivalent part of the product to replace it.

The question of the continuity of capitalist production presents problems of both social and economic character which can be called problems of reproduction.

For capitalist production to be continued in time, it must reproduce the fundamental conditions of the capitalist mode of production : the monopoly of the means of production in the hands of one class of society and the existence of another social class which is obliged to sell its labour power in order to get the money it needs to acquire the means of life. The overwhelming majority of the working population of the money it needs to acquire the means of life. The overwhelming majority of the working population of the capitalist countries consume everything they have earned and thus cannot accumulate the capital. The sale of the commodities produced should enable the capitalists to reconstitute the capital they have expended in production and to acquire newly produced means of production. For the continuity of capitalist production to be guaranteed it is necessary that during a series of production cycles : (i) The capital goods needed to replace those used up in the course of production and consumer goods needed to reconstitute labour power, be materially produced; (ii) The purchasing power capable of realising the value of these capital goods and consumer goods be created and actually spent; (iii) This purchasing power be distributed in such a way that supply and demand balance as regards both capital goods and consumer goods. In fact, the study of the economic problems of reproduction in capitalist society is essentially the study of the question raised by these conditions, without which the continuity of capitalist production is broken.

In starting, his investigation of the process of accumulation of capital, Marx looked first at the basis of reproduction common to all stages of social development.

In order to live, people must continually produce material goods. A society can no more cease to produce, for even the briefest period, than it can cease to consume. The production of material wealth, looked as a continuous, constantly repeated process, is called reproduction. Like production, reproduction has a social character. In every social formation, there is always reproduction of labour-power and of the corresponding relations of production, as well as reproduction of material goods. Marx distinguished two types of reproduction, simple and extended. Sometimes, when conditions are deteriorating, Marx wrote that imperfect defective reproduction might take place. Extended reproduction, in which the process of production renews itself on the ever increasing scale, is the characteristic of capitalism. Nevertheless, Marx began his analysis of the process of capitalist accumulation with simple reproduction, as it is the basis, the

main component of extended reproduction.

Simple reproduction refers to a capitalist system which preserves indefinitely the same size and the same proportions among its various parts. For these conditions to be satisfied capitalist must every year replace all capital worn out or used up and spend all of their surplus value on consumption and workers must spend all of their wages on consumption. If these requirements were not fulfilled there would take place either an accumulation or depletion of the stock of means of production. Simply reproduction appears as a succession of production cycles which makes possible the maintenance of social wealth but not its increase. In a society which produces use values, simple reproduction means that the annual amount of products is sufficient to support a stable population and to replace the instrument of labour used up during this year. In a society which produces commodities, simple reproduction means that the value of the annual product suffices exactly to reproduce labour power, the instruments of labour and the stock of raw material used up during the year, and to support the possessing classes. In a capitalist society, simple reproduction means that the annual surplus value is wholly consumed unproductively by the bourgeois class and that there is no accumulation of capital.

Suppose that all industry is divided into two main branches of departments in I means of production are produced and in II consumption goods are produced. Let C_1 and C_2 be the constant capital engaged respectively in I and II; similarly let V_1 and V_2 be the variable capital S_1 and S_2 the surplus value and W_1 and W_2 the product measured in value of the two branches respectively. Then we shall have the following equations representing the total production :

$$\begin{aligned} \text{I :} & \quad C_1 + V_1 + S_1 = W_1 \\ \text{II :} & \quad C_2 + V_2 + S_2 = W_2 \end{aligned}$$

For the conditions of simple reproduction to be satisfied, the constant capital used up must be equal to the output of the producers goods branch and the combined consumption of capitalists and workers must be equal to the output of the consumers goods branch. This means that :

$$\begin{aligned} C_1 + C_2 &= C_1 + V_1 + S_1 \\ V_1 + S_1 + V_2 + S_2 &= C_2 + V_2 + S_2 \end{aligned}$$

The solution of these two equations gives the following single equation :

$$C_2 = V_1 + S_1$$

This, then, is the basic condition of simple reproduction. It means that the value of the constant capital used up in the consumption goods branch must be equal to the value of the commodities consumed by the capitalists and workers engaged in the producing means of production. If

this condition is satisfied, the scale of production remains unchanged from one year to the next.

In this reproduction scheme, production, is divided into two broad categories : output of means of production and output of means of consumption. Taken together these constitute aggregate social supply of commodities. Income on the other hand, may be said to be divided into three categories; the income of the capitalist which must be spent on means of production if he is to maintain his position as a capitalist, the income of the capitalist which he is free to spend on consumption (surplus value) and the income of the workers (wages). Since, there are capitalists and workers in both of the main branches of production, income is divided into six categories, three for each branch. Taken together these constitute the aggregate demand for commodities. In equilibrium, aggregate supply and aggregate demand must balance. It is one of the important functions of the reproduction scheme to throw light on the problem of this balance. In fulfilling this function, the reproduction scheme lays the groundwork for an analysis of discrepancies between aggregate supply and aggregate demand which, of course, manifest themselves in general disturbances of the production process.

The reproduction scheme is, in essence, a device for displaying the structure of supply and demand in the capitalist economy in terms of the kinds of commodities produced and the function of the recipients of incomes.

The capitalist mode of production is distinguished from all previous modes of production by the fact that it is not unproductive consumption but productive consumption, the capitalisation of the social surplus product, that represents the driving force of action and exploitation on the part of the possessing classes. In this case, expanded reproduction is the normal form of reproduction under capitalism, simple reproduction being possible only at exceptional moments in the capitalist production cycle.

Expanded or extended reproduction takes the form of a succession of production cycles which makes possible an increase in social wealth. In a society which produces use values, expanded reproduction means that the yearly amount of product is greater than is needed for the support of the whole population and the conservation of the stock of instrument of labour.

In a commodity-producing society, expanded production means that the value of the annual product is greater than the value of the labour power, the instruments of labour and the stock of raw material used up during the year, together with the goods needed for the upkeep of the possessing classes. In a capitalist society, expanded reproduction means that surplus value is divided into two parts; one part is consumed

unproductively by that capitalist, their families and their hangers, the other part, consumed productively, that is accumulated and invested in the form of machinery, raw materials, additional wages, which makes it possible to start a new production cycle with a larger capital than in the previous cycle.

In the case of simple reproduction, the value of all the capital goods produced in a single cycle must be equal to the value of total constant capital used in the course of this production cycle. In the case of expanded reproduction this will not do, for the capital goods needed to start the next cycle with an increased constant capital will be lacking. The first condition for expanded reproduction is thus the production of an additional amount of capital goods over and above what have been used up in the previous production cycle. The equivalent of this additional amount of capital goods is precisely the part of surplus value destined to be accumulated as additional constant capital. Similarly, the production of an additional amount of consumer goods, over and above those bought during the previous cycle by the workers and the capitalist, is necessary since the consumer goods are to provide the counter-value of the additional variable capital (wages) which part of the accumulated surplus represents and which is destined to purchase and additional quantity of labour power. Therefore, three things are necessary for extended capitalist reproduction (at a given level of labour productivity); (i) additional means of production (ii) additional means of subsistence for the workers newly drawn into production; and (iii) additional labour power. In this way, expanded reproduction is expressed in the increase, between one cycle and the next, in the total value of the commodities in each sector, as also in the increase of surplus-value in each sector. Under simple reproduction these values remain stable from the cycle to another.

In other words, the expanded reproduction of social capital is only possible when there is a definite proportionality in the development of Departments I and II, between the product. In conditions of scientific and technological progress the law of expanded reproduction is that the production of means of production grows more rapidly than the production of means of consumption, that is, the growth rate in Department I exceeds the growth rate in Department II.

The Marxian theory of reproduction makes it possible to understand condition under which reproduction and the realisation of social product, capital and surplus value are possible under capitalism. Analysis of the expanded capitalist reproduction shows that all the new capital arisen from capitalist surplus value is the result of appropriation of the unpaid labour of others. "What really takes place in this", Marx said, "the capitalist again and again appropriates, without equivalent, a portion of the previously

materialised labour of others and exchange it for a greater quantity of living labour. It means that the worker is always left without means of production, although he works continuously and the capitalist, on the contrary, always remain the owner of the means of production, although he does not work, "Thus capitalist expanded reproduction, or the accumulation of capital, is the reproduction of capital, of labour power and of capitalist production relations on an increasing scale."

Apart from simple and expanded reproduction there can be a contracted reproduction in an economy. Contracted reproduction occurs as a succession of production cycles which no longer allow social wealth to maintain itself but instead cause it to shrink. In a capitalist society, contracted reproduction means that, for various reasons, the capitalists are unable to renew the constant capital used up and that the wages paid out do not enable the producers completely to reconstitute their labour power.

In pre-capitalist societies, contracted reproduction might result from two different combinations of circumstances. First, a sudden decline in production (owing to natural or social calamities, drought, floods, earthquakes, invasions, epidemics, wars, civil wars etc.) and secondly, contracted reproduction could result from a change in the distribution of available social resources. In the capitalist mode production we encounter both of these forms of contracted reproduction. First, that which is caused a sudden fall in production due to an economic crisis. Similarly capitalism can experience contracted reproduction due to change in the distribution of available productive resources.

War economy is the typical example of contracted reproduction under capitalism. War economy implies that part of the productive resources of constant capital and labour power are devoted to : making of means of destruction, the use-value of which does not make possible either the reconstruction of machinery, or of stock or raw material, or of the labour force, but tends on the contrary, to bring about the destruction of these resources. The production of tanks, aircrafts, and shells, sold by the capital engaged in the sector of means of production, is a production of commodities, the value of which realised on the market. But as these commodities do not enter into the process of reproduction increase in national income is accompanied by an absolute in the amount of existing constant capital and a very big reduction in the labour productivity.

Socialist Reproduction

Much of what is said about simple and expanded or extended reproduction under capitalism is valid, in its technical essence, at least, about socialist reproduction. However, the theory of social reproduction, which provides the scientific grounds for the rates and proportions of the

development, the department and sectors of social production, industry and agriculture and for the correlation between production; accumulation and consumption, is of primary importance for the planned direction of economic processes.

Under socialism, social reproduction is a continuous, planned process of the development of the productive forces and of socialist relations of production of constant growth of material production and socialist property and of raising the well-being of the people. The main features of socialist reproduction is its subordination to the needs of the working people. Social ownership of the means of production comments the socialist economy into a single organism and enables society to recognise the international links and proportion of the economy, to distribute material and labour resources between industries and economic regions, to take into account the growing needs of reproduction and to maintain high terms and necessary proportions of reproduction.

Full dominance of social ownership, comradely co-operation, mutual assistance of workers and production collectives and their responsibility to society for their assignments, the purposeful character of the whole economic system, and planned, proportionate development are the important features of socialist reproduction.

Extended reproduction on a steadily growing scale is inherent in a socialist economy. Planned, continuous growth of production, and the system of socialist relations of production ensures high and stable rates of extended socialist reproduction. Social production grows much faster in socialist countries than in capitalist ones. Between 1950 and 1975, the annual average rates of increment in industrial production in the USSR and other socialist member countries of Council for Mutual Economic Assistance (CMEA) were more than twice those of the development capitalist countries. In general, socialist reproduction is a process of planned, uninterrupted growth of the social product, increasing the number of productive workers and systematic raising of their well-being, cultural and technical standards and with the consolidation and development of socialist relations of production. Its object is to satisfy more and more fully the growing material and cultural needs of the working people of town and country.

Marx's analysis of the laws of capitalist reproduction opens with an explanation of the condition of simple reproduction, which is reasonable from both the historical and logical point of view. Capitalism was preceded by economic system characterised by simple reproduction. Since simple reproduction is the major component of extended reproduction, it is preferable to begin the analysis of economic process from it. In fact, the analysis of the initial conditions of reproduction, in general, is particularly

important for socialist reproduction, and for conscious shaping of its proportions.

The resumption of socialist production on its previous scale requires (i) that the production of Department-I should be adequate to make good the means of production produced should correspond to the amount of the newly created value in Department I and II. Consequently, with simple reproduction newly created value is not used to extend production but is fully used up in non-productive consumption. The conditions of simple reproduction also indicate reserves that have to be built up in order to extend reproduction. For other purpose, society must (i) possess a certain surplus of the means of production produced over and above what is needed to replenish them in both Departments I and II and (ii) use the newly created value not only to provide the revenues to the working people but also for accumulation, for increasing the volume of means of production and the manpower used in both Departments and in developing the non-productive sphere. Strict observance of all the conditions of simple and expanded reproduction is important for planned direction of the economy.

In socialist society, the conditions of production take place in a new social context and reflect the value and physical movement of the components of the aggregate social product, consisting of social property and the personal incomes of the working people of town and country. The objective conditions of reproduction are observed during the constant and systematic movements of the components of the aggregate product both their value and physical forms, in their movement from production through distribution and exchange, to consumption. Alongwith the growth of production and development of the social vision of labour, the volume of realisation of the means of production and means of consumption, and exchange of the products of labour between the departments, branch and enterprises expand and the volume of sales of consumer goods increases. Within both departments of social production and between them, economic relation develop and multilateral exchange of the products goes on, on the basis of depending social division of labour.

Socialist economy has an interest in the realisation of the aggregate social product, this is, the replacing of all constituents in terms of value and in physical form, being carried out in good time and in the appropriate production, which makes it possible to accelerate the formation of sources of accumulation. Planned relations between production and consumption are maintained in socialist economy by means of proper pricing, the development of commodity money relations and trade. The deeper and needs of the economy and the public are studied and more exactly they are brought in production, the fuller and more rational these relations will be. The absence in socialist society of the difficulties of realisation, which are organic

to capitalism, does not mean that any commodity automatically has a ready market. That can only happen when the given commodity meets the needs of production of the public. Therefore, all round analysis of the needs of society as a whole and of its individual members is most important for realising the aggregate social product.

In the socialist economies distinction is made between 'productive' and 'non-productive' accumulation. The former comprises additions to fixed and variable assets in the sphere of material production and its is referred to as 'productive investment'. The balance of accumulation consists of durable consumer goods for individual as well as for collective consumption, such as private housing and household effects, public buildings and equipments, educational social, cultural and sporting facilities and defence installations and materials. In the beginning, in most of the socialist countries, the productive investment constitutes about three quarters of the total, the remaining one quarter being classed as non-productive. As socialist countries proceed to higher stages of economic development it can be expected that the share of the productive investment of socialist reproduction will decline in favour of 'non-productive' ones more directly relevant to the improvement in living standards. This productive investment is directly related to socialist reproduction which denotes a continuous process of production where resources are used up partly to meet current consumption needs and partly to resources to enable continued production in the future.

The rate of economic growth or the scale of expanded socialist reproduction in a given period, depends on the investment made in the proceeding periods and on its efficiency. Under socialism, the investment rate for reproduction is not a product of micro decisions dependent on anticipated demand and profitability, but is determined by the central planning authority in advance. The size of socialist accumulation and investment is never limited by an insufficiency of demand because the latter can be easily adjusted to the required level. In the best known model of socialist growth or reproduction, developed by M. Kalecki in Poland, the determinants of economic growth, in fact reduce of those affecting of investment as indicated by the following formula :

$$Rg = \frac{1}{C_i} \cdot \frac{I}{Y} - Y_0 + Y_c$$

Here, Rg is the rate of growth of national income, C_i is the coefficient of capital intensity (its reciprocal denotes the coefficient of capital efficiency), I/Y is the share of productive investment in national income. Y_0 denotes reduction in national income caused by the withdrawal of worn-out resources and Y_c is the increase in national income brought about by greater efficiency.

The advantages of socialist reproduction do not mean that the process of socialist development and reproduction is free from all contradictions. The productive forces of socialist society grow more rapidly and the relations of production sometimes lag behind this dynamic advance. Further upsurge of the socialist economy, then depends on how promptly the contradictions thus arising are overcome.

These contradictions, however, are not antagonistic and in the process of production they are overcome in a systematic way and do not give rise to the crisis intrinsic to capitalism.

Now let us note, in brief, the main features and socio-economic implications of the process of expanded socialist reproduction :

- (i) Under socialism, priority to growth of production of means of production as compared with the production of objects of consumption is an objective economic law.
- (ii) Planned reproduction in the socialist economy with powerful growth of production of means of production determines a high growth rate in production of consumer goods and also an optimum balance in the growth rate of industry and agriculture. This, in turn, results in the change in the proportion and efficiency of socialist reproduction.
- (iii) The high growth rate of social reproduction in a developed socialist economy is possible due to several objective factors "social ownership of means of production and development of socialist production relations, elimination of losses due to economic crisis and parasitic consumption of exploiting class, rational organisation of the economy, etc, Because of increase in socialist reproduction the national income's distribution is made on the basis of its primary distribution.
- (iv) Expanded socialist reproduction tends to increase the proportion of materialised labour and reduce that of living labour in the aggregate social product and the proportion of materialised labour in the social product grows further as the technical level of production rises. In its turn, increasing the proportion of transferred labour in the social product and of the surplus product in the national income makes for expansion of the sources of socialist accumulation.
- (v) With the development of expanded socialist reproduction the volume of the aggregate social product and the national income increases and this process helps rapid socialist accumulation out of which a major part always goes into productive investment.
- (vi) The scientific and technical improvements in the structure of socialist reproduction strengthen the structure and improve the effectiveness

of investment by directing it to the building and equipment of new enterprises and to the extension, modernisation and technical re-equipment of existing enterprises.

- (vii) Expanded socialist reproduction raises the effectiveness of accumulation and investment and this, in turn, improves the distribution of the productive forces in three ways, the bringing of production closer to the sources of raw materials, location of industry closer to the places of consumption and levelling up the industry development of different regions and economic areas.
- (viii) After the initial stage of socialist development, the expanded reproduction, eventually results in increasing personal consumption fund and the social consumption fund for the working masses of the society.
- (ix) The reproduction of labour power is a part of socialist reproduction, the process of which implies of employment in material production and other spheres of activities, restoration and development of people's vital productive powers, their systematic training and raising of their industrial skills. The reproduction of labour power in society is organically combined with planned distribution of workers between different sectors of material production and the non-productive sphere and between regions of the country.
- (x) In the course of socialist reproduction, the antagonistic class differences among people are overcome. This process begins immediately during the process of transition from capitalism to socialism. The working class is transformed from a class of oppressed wage labourers into a free class and the leading force of socialist society. The peasantry is transformed from a class of small property owners into a co-operative peasantry. In the process of socialist reproduction, people's intelligentsia, coming from the ranks of the workers and peasants, is formed.

QUESTIONS

1. Write in brief about the early controversies regarding economic planning under socialism.
2. Write about the nature of economic planning since the Second World War. What are its different forms.
3. Discuss the role of planning and market mechanism under socialism and capitalism.
4. How does planning in a socialist economy differs from planning in a capitalist economy.
5. What is meant by market mechanism? Explain its role in a capitalist and in a socialist economy.
6. What is a primitive accumulation? Distinguish between the nature and methods of primitive socialist and primitive capitalist accumulation.
7. Distinguish between the methods of capitalist and socialist accumulation. What are the limits of the process of capital accumulation.
8. Explain the nature and methods of socialist accumulation. What are its problems?
9. Distinguish between 'simple' and 'expanded' reproduction. What is the role of expanded reproduction in a socialist economy?
10. Krishna Bhardwaj, *Classical Political Economy and Rise to Dominance of Supply and Demand Theories*.
11. V.I. Lenin, *Collected Works*
 - (a) Vol. 16, "The Capitalist System of Modern Agriculture".
 - (b) Vol.3, "Development of Capitalism in Russia".
 - (c) Vol. 4, "Capitalism in Agriculture".
12. Ranjit Sau, "Can Capitalism Develop in Indian Agriculture", *Economic and Political Weekly*, Dec. 1976.

Short Answer type Questions

1. Planning.
2. Lange's views on planning.
3. The Planometric Centralist Model of Planning.
4. Market in a central planned economy.
5. Market socialism.
6. Accumulation.
7. Primitive accumulation.
8. Feudalism and primitive capital accumulation.
9. Describe any four methods of capitalist accumulation.
10. Difference in the objectives of capitalist and socialist accumulation.

11. Foreign trade as a method of socialist accumulation.
12. The fundamental law of socialist accumulation.
13. State and capitalist accumulation.
14. Extended reproduction.
15. Contracted reproduction.
16. Socialist extended reproduction and consumption funds.
17. Any two conditions necessary for capitalist reproduction.
18. Centralised economy.
19. How is surplus-value produced ? Explain its role in the Marxian analysis of Capitalism.
20. Describe the main characteristics of modern capitalism and comment on its future.
21. Write a detailed note on capitalist production relations in agriculture. Are they different in industry ?

Suggested Books

1. M. Dobb : *Soviet Economic Development Since 1917*, Routledge and Kegan Paul, London, 1966.
2. Oscar Lange : *Socialist Planning : Some Problems*, Lawrence and Wishart Ltd. London, 1970.
3. O. Lange : *Problems of Political Economy of Socialism*, People's Publishing House, 1962.
4. B.E. Lippincott (ed) : *On the Economic Theory of Socialism*, McGraw Hill Paperbacks, New York, 1964.
5. A. Nove and D.N. Nuti (eds.) : *Socialist Economies*, Harmondsworth Penguin Education, 1974.
6. P.M. Sweezy : *Socialism*, McGraw Hill Book Company, 1949.
7. J. Wilczynski : *The Economics of Socialism*, George Allen & Unwin London, 1972.
8. Zbigniew Bablewski : *Introduction to Economic Planning*, Ch. II, Central School of Planning and Statistics, Warsaw, 1979.
9. Oscar Lange : *Op. Cit.*, Ch. 2.
10. J. Wilczynski : *Op. Cit.*, Ch. 2.
11. Ernest Mandel : *Marxist Economic Theory*, Ch. 16, Rupa & Co., Calcutta, 1971.
12. Karl Marx : *Capital*, Vol. I, Ch. XXVI, Progress Publishers Moscow.
13. E. Preobrazhensky : *The New Economics*, Ch. II, Clarendon Press, Oxford, 1968.
14. P.M. Sweezy : *The Theory of Capitalist Development*, Monthly Review Press, New York & London, 1970.
15. G.A. Kozlov (ed.) : *Political Economy : Socialism*, Ch. XIV, Progress Publishers, Moscow, 1977.

Type Setting By:

Department of Distance Education, Punjabi University, Patiala