ERNEST MANDEL

MARXIST ECONOMIC THEORY

VOL. 2

Translated by Brian Pearce

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by

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Throughout this book the term
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CONTENTS OF VOLUME II

CHAPTER TWELVE

MONOPOLY CAPITALISM

CHAPTER THIRTEEN

IMPERIALISM

CHAPTER FOURTEEN

THE EPOCH OF CAPITALIST DECLINE

CHAPTER FIFTEEN

THE SOVIET ECONOMY

CHAPTER SIXTEEN

THE ECONOMY OF THE TRANSITION PERIOD

CHAPTER SEVENTEEN

SOCIALIST ECONOMY

CHAPTER EIGHTEEN

ORIGIN, RISE AND WITHERING AWAY OF POLITICAL ECONOMY

CHAPTER TWELVE

MONOPOLY CAPITALISM

The second industrial revolution

DURING the last quarter of the nineteenth century, capitalist industry was drawn into a fresh technical revolution. Like the first, the second industrial revolution changed essentially the source of power for production and transport. Alongside coal and steam, petrol and electricity henceforth played their part in driving the wheels and the machinery. From the end of the century onward the internal combustion engine and the electric motor took the place of prime movers operated by steam.

This power revolution transformed the whole of industrial life. At the same time, steel-making was given a new impetus by the introduction of the Bessemer process, the open-hearth furnace, and the Siemens-Martin regenerators, together with processes for hardening steel with alloys.* Steel became more and more the basic industrial material. Further, the electrolysis of bauxite made it possible to turn aluminium into a cheap raw material for industrial use, whereas previously it had been regarded as a precious metal, costing £7 an ounce.

Finally, the chemical industry underwent during this same period its first big development. With knowledge of the use of coal by-products, this industry proceeded to make dyes synthetically, and dealt a mortal blow to the ancient production of natural dyes in the Far East. The synthetic textile industry also came into being.

The industrial revolution at the end of the nineteenth century altered the relative importance of the different branches of industry in world economy.[2] For a century, cotton and coal had been kings. Now steel held the first place, soon to be followed by mechanical engineering and motor car production.

In Britain the centre of gravity shifted from Manchester (cotton) to Birmingham (steel). At the same time Britain lost for good its industrial preponderance and its monopoly of high productivity, as

* In 1870 American production of Bessemer steel did not exceed 30,500 tons; in 1880 it reached 850,000 tons, and in 1890 1·9 million tons. In 1880 the quantity of iron rails produced was still the same as that of steel rails; in 1890 iron rails made up less than 1 per cent of the total tonnage. In 1874 the first steel bridge was built, over the Mississippi at St. Louis.[1]

the power revolution favoured the U.S.A. most of all, owing to its petroleum resources.

Industrial concentration accentuated

The industrial revolution at the end of the nineteenth century proved a powerful stimulant to the centralisation and concentration of industrial capital. The development of the steel-making industry involved the disappearance of all the old blast-furnaces which used wood as fuel. The new plant required substantial investment of capital and eliminated most of the very small businesses operating in this key branch of industry; the number of American steel-making companies fell from 735 in 1880 to 16 in 1950.[3] Several new industries arose which were characterised by the predominance of giant concerns (aluminium, chemicals, electrical apparatus) owing to the amount of expensive equipment needed. The accelerated development of fixed capital, the large minimum equipment needed to establish a profitable new business, encouraged capitalist concentration.

"Industries in which the smallest productive unit that can still be efficiently operated is very large are not readily entered by newcomers. This is for several reasons: it takes enormous amounts of capital to put up a new unit; the establishment of a new unit may mean such a large addition to the existing capacity of the industry that the effect upon total supply may be more than the market can be expected to absorb without drastic price reductions; and the uncertainties involved in all this may appear forbidding. Thus, a large minimum size, or large optimum size, may be seen to be a sort of 'natural' barrier to entry."[4]

The entry of a number of new countries into the market, such as Japan, Russia and Italy, likewise stimulated the concentration of capital. These countries did not reproduce the entire industrial structure of the nations which had preceded them in economic development. They took over only the most modern part, that is, the enterprises in which the organic composition of capital was highest and the degree of centralisation most pronounced. The predominance of giant concerns, as compared with small and medium-sized ones, was to be from the very start much more marked in Russian and Japanese heavy industry than in the corresponding industries in the more advanced countries.

The same law of uneven development determined the more rapid progress of the concentration of capital in Germany and the U.S.A., countries whose industrial advance, in the strict sense, took place during the last quarter of the nineteenth century, as compared with the countries whose advance had taken place in the previous half century: Britain, Belgium, France.

Finally, the new techniques themselves favoured concentration.

Thus, electrical power made possible the synchronisation of factory work, the introduction of the conveyor-belt, and new divisions of labour which favoured the integration of concerns both horizontally and vertically.

The concentration of capital is shown primarily by the fact that the big enterprises employ a more and more substantial proportion of the total industrial labour force.

Here, for *Germany*, are the percentages of all non-agricultural labour employed in the various categories of enterprises: [5]

	1882	*1895*	*1905*	*1925*	*1933*	*1950**	*1961**
	%	%	%	%	%	%	%
Enterprises with							
0 to 10 employees	65·9	54·5	45·0	39·4	46·8	24·6	24·3
11 to 50 employees	12·1	15·8	17·9	19·1	14·3	28·7	15·9
51 to 200 employees	10·1	14·0	16·8	18·0	14·3	9·6	14·5
Over 200 employees	11·9	15·7	20·3	23·5	24·6	37·1	45·1

For the same country, the evolution in industry taken separately is even more striking: [6]

	1933		*1952*		*1957*	
	A	B	A	B	A	B
	%	%	%	%	%	%
Factories with						
1 to 9 employees	88·6	19·6	46·1	2·9	44·7	2·2
10 to 49 employees	8·1	15·4	34·0	12·4	31·7	9·4
50 to 99 employees	2·4	21·5	9·0	9·9	10·0	8·6
100 to 199 employees			5·2	11·5	6·3	10·8
200 to 499 employees	0·8	43·4	3·6	17·3	4·6	17·6
500 to 999 employees			1·1	11·7	1·5	12·5
over 1,000 employees			0·9	34·3	1·2	38·8

A = percentage of the total number of enterprises.
B = percentage of the total number of employees.

It will be seen that in the course of less than thirty years, the percentage of the labour-force employed in industrial enterprises with over 200 employees increased from 43 to 69 per cent.

Besides the steady growth of big enterprises these figures clearly indicate the radical change which occurred during the 75 years of German industry's advance. In 1882 *nearly two-thirds* of German employees worked in enterprises where there were fewer than ten employees. In 1961, in the non-agricultural sector, this percentage had fallen to *less than a quarter*, and in industrial enterprises to 2 per cent. Enterprises employing over 200 people had only one-tenth of the non-agricultural employees in 1882; in 1905 they had a fifth, in 1933 a quarter, and nearly half at the beginning of the 1960s.

* All the figures for 1950 and 1961 relate to the territory of the German Federal Republic. The figures for the second category for 1950 year relate to enterprises with between 10 and 99 workers, and those for the third category to enterprises with between 100 and 199 workers.

Here is how the structure of non-agricultural enterprises evolved in *France*:

No. of employees	*1896* A %	*1896* B %	*1906* A %	*1906* B %	*1926* A %	*1926* B %	*1958* A %	*1958* B %
1 to 10	98·3	62·7	98·3	58·9	96·1	39·2	95·4	20·0
11 to 50	1·32	11·7	1·34	11·5	3·0	15·6	3·6 }	28·8
51 to 100	0·18	5·1	0·19	5·17	0·8	7·4	0·5 }	
101 to 500	0·02	11·2	0·02	12·68	0·03	17·5	0·5	21·4
over 500		9·3		11·7		19·3		29·8

A = percentage of the total number of enterprises.
B = percentage of the total number of employees.

Small non-agricultural enterprises with ten or fewer employees, still had nearly two-thirds of the wage-earning labour-force in 1896; today they have less than a fifth. Enterprises with over 100 employees had a fifth of the labour-force in 1896, but in 1958 they had 51 per cent.[7]*

As regards *Italy*, here is the evolution which has taken place during the last thirty years:

Employees by category	*1927* A %	*1927* B %	*1937-39* A %	*1937-39* B %	*1958* A %	*1958* B %
2 to 10	89·6	31·3	88·7	24·3	76·1	15·4
11 to 100	9·1	26·5	9·7	25·4	21·2	27·4
101 to 1,000	1·2	31·7	1·5	33·6	2·5	27·9
over 1,000	0·1	10·7	0·1	16·7	0·2	29·2

A = percentage of total number of enterprises.
B = percentage of total number of employees.[9]

In *Belgium*, the following percentage of the labour-force employed in industry (including coal-mining) worked in enterprises with more than 50 employees: 51·2 per cent, in 1896, 56·8 per cent in 1910, 62·7 per cent in 1930, 66·7 per cent in 1956.

Here are the corresponding figures for the most typical country of present-day capitalism, the *United States*.

NUMBER OF MANUFACTURING ESTABLISHMENTS EMPLOYING

	1909	*1914*	*1929*	*1955*
0 to 4 employees	136,289†	74,766	102,097	{ 255,684
5 to 100 employees	91,697	86,141	88,797	
101 to 500 employees	11,021	10,972	13,275	22,395
501 to 1,000 employees	1,223	1,200	1,579	2,862
over 1,000 employees	540	577	921	21,106

* In 1959 this percentage had already risen to 55 per cent.[8]

† The figures for 1900 included among manufacturing establishments a number of small workshops of the craft type which were not subsequently included in the census. This is why we have not taken them as our starting point in the above table, though they show an even more marked tendency towards concentration than appears in the figures given.

NUMBER OF EMPLOYEES PER CATEGORY OF ENTERPRISE

	1909	*1914*	*1929*	*1955*
0 to 4 employees	311,704	181,566	726,808	4,181,000
5 to 100 employees	2,187,499	2,082,873	2,236,157	
101 to 500 employees	2,265,096	2,258,438	2,750,797	4,688,000
501 to 1,000 employees	837,473	824,625	1,079,277	1,977,000
over 1,000 employees	1,013,274	1,131,211	2,026,713	5,499,000[10]

Thus, enterprises employing *fewer than 500* people and which made up 99·6 per cent of all the factories in 1909, 99 per cent of them in 1914, 98 per cent in 1929 and 97·5 per cent in 1955 employed:

In 1909: 72·0 per cent of all employees.
In 1914: 69·8 per cent of all employees.
In 1929: 62·9 per cent of all employees.
In 1955: 54·3 per cent of all employees.

On the other hand, firms employing *over 1,000* people, and making up less than one per cent of all factories in all the years compared, employed:

In 1909: 15·3 per cent of all employees.
In 1914: 17·4 per cent of all employees.
In 1929: 24·2 per cent of all employees.
In 1955: 33·6 per cent of all employees.

The *average* size of manufacturing enterprises increased from 8 employees in 1850, 9 in 1860, and 10·5 in 1880 to 35 in 1914, 40 in 1929, 53 in 1939 and 55·4 in 1954. In the last mentioned year, enterprises with over 1,000 employees concentrated 32·8 per cent of the total personnel employed in industry, but produced 37 per cent of the "value added" in industry.

Nevertheless, these figures do not give an exact picture of industrial concentration in the United States. Actually, the concentration of labour is less advanced than the concentration of incomes and that of profits. Thus, the annual surveys of the Bureau of Internal Revenue give the following picture of the proportion of the total income of all manufacturing companies which goes to the different categories:

COMPANIES WHOSE NET ANNUAL REVENUE IS

	1918	*1929*	*1927*	*1942*
	%	%	%	%
Less than 50,000 dollars	8·17	7·06	6·76	3·34
between 50 and 500,000 dollars	24·58	19·31	20·09	14·69
between 500,000 and 5 million dollars	33·08	46·11	32·05	31·28
more than 5 million dollars	34·17	27·52	41·12	50·69

Finally, an investigation carried out by the Federal Trade Commission showed that the 200 largest companies in the United States had 35 per cent of the turnover of all companies in 1935, 37 per cent in 1947, 40·5 per cent in 1950 and 47 per cent in 1958. The post-war boom, which saw the number of manufacturing companies increase by 50 per cent, thus did not bring a fall-off in concentration. On the contrary, this continued vigorously, but the number of very large enterprises which emerged from this concentration evidently increased in a period of lively expansion.[11]

Monopoly agreements, groupings and combines

The accelerated concentration of capital which occurred from the last quarter of the nineteenth century onward was at once the consequence and the cause of an increase in the organic composition of capital. Born of the need to assemble a substantial amount of fixed capital in order to produce under optimum conditions of profitability, industrial concentration, by putting great resources in the hands of a relatively small number of capitalists, enabled them to carve out a bigger and bigger place for themselves on the market and to drive out of it large numbers of small and medium-sized manufacturers. At the same time, the speculation raging in the new sectors of industry, the feverishly rapid growth of production, made and unmade fortunes at an accelerated pace. The very largest enterprises found themselves confronted with risks which had increased in the same proportion as their business had expanded. The banks, which had to a large extent organised the expansion of business, were not prepared to run such risks. The long depression in trade after 1873 contributed markedly to make the capitalists aware of these risks.[12]

Under the pressure of all these factors, a radical change took place in the thinking of the biggest capitalists, in their way of looking at business organisation. Instead of clinging to the creed of free competition, they began to look for possibilities of restricting it in order to prevent any fall in prices, that is, any marked fall in their rate of profit. The need to ensure regular and rapid depreciation of an ever growing amount of fixed capital worked in the same direction.[13] Understandings were arrived at between capitalists, which entailed agreements not to compete by lowering prices.*

Responsible spokesmen of the big bourgeoisie pretty soon gave expression to this new need to abolish price competition and make alliances and combines. Interviewed by the *New York Tribune*, H.

* Even a paper so favourable to liberalism and the views of employers as the *Neue Zürcher Zeitung* is obliged to observe[14] regarding the German capitalists: "It is curious, and perhaps not to be explained except psychologically [!], that German businessmen, for whose freedom lawyers and economists . . . have struggled for years, do not, for the most part, want this freedom . . . That freedom in relation to the State has for its condition . . . acceptance of risk in business is no longer recognised except when a seller's market prevails and one can thereby justify increased prices and profits."

H. Rogers, one of Rockefeller's associates in the formation of the Standard Oil Trust, declared so early as 1874: "If by common consent, in good faith, the refiners agree to reduce the quantities to an allotment for each, made in view of the supply and demand, and the capacity for production, the market can be regulated with a reasonable profit for all. The price of oil today is fifteen cents per gallon. The proposed allotment of business would probably advance the price to twenty cents . . . Oil to yield a fair profit should be sold for twenty-five cents per gallon."[15]

The chairman of the British Soap Makers' Association stated in January 1901 that it had become impossible "to make profits without association and combination."[16] And a more famous soap-maker, Mr. Lever himself, had to say in 1903: "In the old days a manufactory could be an individual concern. Next . . . a partnership . . . Then it grew beyond the capital available by two or three joining together as a partnership, and limited companies became necessary . . . Now we have reached a further stage again, when a number of limited companies require to be grouped together in what we call a combine . . ."[17]

Examples could be multiplied indefinitely. In 1912, a Chicago lawyer, Mr. A. J. Eddy, summed up the new doctrine in a work entitled *The New Competition*, in which he declared that this "new" form of competition was based on "open prices", that is, on general information regarding costs of production and selling prices.[18] Let us quote in conclusion the book by the chief organiser of Imperial Chemical Industries, Lord Melchett, published in 1928: competition he said, was outmoded; it "inevitably led . . . to co-operation", through mergers and international agreements.[19]

Inter-capitalist undertakings were not *new* phenomena, in the strict sense. The *industrial* capitalism of free competition was born directly of that *commercial* capitalism which found in monopolies its chief source of profit. Hardly had these old exclusive alliances passed away than new ones appeared. Did not Adam Smith already note that industrialists in the same branch of production never meet but to "conspire" in order to raise the prices the public has to pay?

Beginning in 1817, Britain saw the monopolisation of the Cheshire salt trade. At Newcastle the "committee for the limitation of the vend" was operating to supervise carefully the production and sale of coal along the rivers Tyne and Wear.[20] In 1851 the *Cincinnati Gazette* reported: "About four years ago, the salt manufacturers of the Kanawha River, finding that their capacity to manufacture salt was larger than the demand for consumption. . . and it having consequently went [*sic*] down to a ruinous price, formed themselves into an association, for the purpose of protecting their interests, by fixing the price of the article, and limiting the amount manufactured to the actual wants of the west." Indeed, the United States saw the appearance in 1853, of the American Brass Association, "to meet ruinous competition"; in 1854 the Hampton Country Cotton Spinners' Association, "to control price policies"; and in 1855 the American Iron Association, with the same purpose.[21]

But all these moves in the direction of monopoly had to remain isolated and ephemeral so long as the comparatively modest average size of enterprises made possible the ebb and flow of capital between one branch and another, following the oscillations of the rate of profit. Too many enterprises had to be grouped together, under these conditions, in order to *control* effectively a national market; too little new capital was needed to break a *de facto* monopoly. Only the centralisation and concentration of capital—the creation of giant enterprises tying up an enormous amount of capital, and the predominance of a few firms in a number of branches of industry—could establish conditions favouring the development and relative stabilisation of monopolies.

It was thus logical that these monopolies first appeared in the countries (U.S.A., Germany, Japan) and industries (petrol, steel, motor cars, electrical apparatus, chemicals, etc.) which did not advance until the late nineteenth century or early twentieth century.

The number of firms making motor cars shrank in the U.S.A. from 265 in 1909 to 88 in 1921, 44 in 1926, 11 in 1937 and 6 in 1955. In Britain the number shrank from 88 in 1922 to 31 in 1929 and 20 in 1956, 5 of which were responsible for 95 per cent of total production.[22]

Although a national "pool" for fixing prices in the rope industry appeared in 1861, the first trust in the strict sense was the petroleum trust, Standard Oil. The exploitation of oil wells had begun in 1859 at Titusville, in Pennsylvania. The first company, Pennsylvania Rock, made such profits that 77 competitors appeared after less than a year! "Free competition" could then be studied in all its "elasticity". Prices fell from 20 dollars per refined barrel in 1859 to 10 cents at the end of 1861, to rise again to an average of 8·5 dollars in 1863, then fall to 2·40 dollars, average, in 1867.

When prices continued to fluctuate and foreign competition became more intense, "certain Pennsylvania refiners, it is not too certain who, brought to them (i.e. to Rockefeller and his associates, who at that time controlled only a small fraction of refined production in the U.S.A.) a remarkable scheme, the gist of which was to bring together secretly a large enough body of refiners and shippers to persuade all the railroads handling oil to give to the company formed special rebates on its oil, and drawbacks on that of other people."[23]

In this way the Southern Improvement Company (1871) was formed, controlling 10 per cent of the refinery capacity of the U.S.A. It failed, but Rockefeller was launched on the road to concentration. Its place was taken by the National Refiners' Association (1872), a Central Association (1875) which already united the majority of refineries, and later by a central holding company based on a monopoly of pipelines. In 1884 Standard Oil was refining 90 per cent of all American petrol and transported practically 100 per cent to the refineries. The first monopoly trust was born.[24]

In the same period, understandings between employers began to develop in Europe, especially after the crisis of 1873 and the sharp fall in the rate of profit which it caused. We find at the start of these alliances every time the same reaction against the fall in the rate of profit, in the nineteenth century as in the twentieth. This is how an historian explains the formation of the first brick sales office in Dortmund (1888): "It is enough to recall the economic pressure produced by the acute price conflict, without considering the immense stocks of certain products, to realise that the conclusion . . . was bound to be drawn that only an agreement could prevent enormous reductions in prices. . ."[25]

Half a century later this is what happened, in the synthetic textiles branch in Britain: "In acetate yarns production, competition has been more severe and has lasted longer. The two chief competitors were Courtaulds and British Celanese. The profits of both firms were reduced in 1937 and 1938. Early in 1939 these two firms came to an arrangement over outstanding differences, and the prices of both viscose and acetate yarns were increased by about 2d. per pound."[26]

The forms of capitalist concentration

In order to protect, maintain or increase their rate of profit, capitalist enterprises arrive at understandings or enter into agreements to collaborate which take a great variety of forms. In accordance with the framework provided by the British commission of inquiry into industrial concentration after the First World War,[27] E. A. G. Robinson[28] distinguishes between 13 forms of agreement and concentration, which we will reduce to seven:

1. *Gentlemen's agreements*, or voluntary arrangements between producers not to sell below certain prices or in certain areas. Such an arrangement was concluded, e.g. by the British soap makers in 1901.[29]

2. *Price-regulating associations*. These are distinguished from gentlemen's agreements by more formal and effective arrangements. The shipping conferences provide a classical example.[30]

3. *Pools*. In general, experience shows that price agreements are not effective until there is a definite sharing-out of the market with precise allocations to each producer.[31] Pools are thus distinguished from price agreements by the fact that they envisage such a definite division of

the market. A pool of this kind came into operation fairly soon in the steel-making industry in the U.S.A.[32] The classic example remains the American meatpackers' pool, which carved up the American market for two decades.[33]

4. *Cartels, buying or selling syndicates, sales offices.* Whereas the three first-mentioned groupings are limited in time, cartels and sales offices form an intermediate form between a temporary grouping and a lasting alliance. The enterprises taking part retain their independence; but they are bound by more-or-less long-term mutual contracts, set up common organisations for buying or selling, and often have to pay heavy fines if they break these agreements.

5. *Trusts.* Originally, the trust is a grouping to which previously competing companies entrust their shares, receiving in exchange certificates which indicate the proportion in which they participate in the joint effort. Standard Oil was the classical trust in the U.S.A., but it was declared illegal in 1890.[34] We shall subsequently use the word "trust" in the more general sense that it has acquired, namely, the outcome of a merger of enterprises.

6. *Holding Company, or Konzern.* This means a holding company through which it is possible to concentrate financial control over a number of businesses which themselves remain formally independent. It remains the instrument most commonly used in many countries to bring about the formation of great monopoly empires, notably in the U.S.A.[35], in Belgium,[36] in Germany and in France.[37]

The holding company makes it possible to reduce the proportion of capital needed in order to wield effective control over a large number of companies, through various techniques such as "waterfall"-shareholding or cross-shareholding.*

7. *Mergers,* which are the most "solid" and lasting form of capitalist concentration, in which all legal or financial independence of the constituent companies vanishes. According to their origins, one can

* "The banks . . . retain the majority of the shares of the holding company which they have thus formed. Through this one parent company they control all the members of the group, without directly committing their own resources. In this way they realise a big saving of capital. If, in order to possess a majority at the general meetings of the holding company, it is necessary to own 40 per cent of the shares, and if the holding company in its turn retains control of the members by means of a similar proportion of their shares, the bank enjoys supreme control of the companies in the group by tying up an amount equivalent to 16 per cent of the group's capital."[38] For example: the Banque de Paris et des Pays-Bas formed in 1911 the holding company called the Compagnie Générale du Maroc. The latter controlled in 1952[39] more than fifty companies in Morocco, including banks, transport, petrol, electric power, cement, coal, agricultural machinery and mining firms. Through this holding, all Morocco is *the* domain of the Banque de Paris et des Pays-Bas.

distinguish between *horizontal* trusts, formed by the merging of firms in a single branch of industry (e.g. cigarette, motor car, aircraft, etc., trusts) and *vertical* trusts (grouping firms which reciprocally supply each other's raw materials), and these can in their turn be divided into:

(*a*) *divergent trusts*, which are formed from firms which make the raw materials for factories making various semi-finished or finished products (the U.S. Steel Corporation, Cockerill-Ougrée in Belgium, etc.).

(*b*) *convergent trusts*, which bring together firms making different raw materials and semi-finished products which enter into the making of one particular finished product (e.g. certain motor car trusts).

(*c*) *heterogeneous trusts*, which are made up of firms which have no common bond technically or economically except that they are under the control of the same financial group. This was the case with the Lever trust at the beginning of the 1920s, when, besides soapworks and firms making raw materials, it controlled fisheries, paper-works and engineering works.[40]

In the U.S.A. the period 1897–1904 saw the birth of the majority of the monopoly trusts, as the result of a great merger movement. The number of trusts, which was only 23 in 1890 and 38 in 1896, reached 257 in 1904; the annual capitalisation of mergers, which had never before exceeded 240 million dollars, reached 710 million in 1898 and 2,244 billion in 1899. Out of 339 mergers which took place in this period, 156 gave rise to a definite degree of monopoly power.[41] Since 1900, 32 per cent of industrial production and 40 per cent of mining production (leaving oil out of it) had been under monopoly control in the U.S.A.[42]

Bank concentration and finance capital

The same factors which favour industrial concentration likewise give a strong stimulus to bank concentration. Through this competition, many small banks are absorbed by one large one. Each important crisis sees as a rule the ruin of many bankers: over 2,000 banks disappeared in the U.S.A. in the 1933 slump.[43] More and more capital is needed to establish as close a network as possible of branches, covering the whole national territory and the chief places abroad. Accordingly, the phenomena of concentration and centralisation of bank capital are to be observed in all countries.

In France the three big deposit banks, the Crédit Lyonnais, the Société Générale and the Comptoir National d'Escompte saw their shares increase tenfold in value between 1880 and 1914 and their deposits rise from 580 million gold francs in 1880 to 2,256 million in 1914 and 7,215 million in 1930 (or 35·5 billion Poincaré francs). At that time they held over 50 per cent of all the bank deposits in France, a proportion which did not change at all in 1950, after the nationalising of these banks.

In *Britain* the number of joint-stock banks declined from 104 in 1890 to 45 in 1910 and 25 in 1942, while the number of their branches has increased threefold in the same period and their deposits have increased tenfold. The Big Five—the National Provincial, the Westminster, the Midland, Lloyds and Barclays—held 27 per cent of all British bank deposits in 1900, 39·7 per cent in 1913, 72·4 per cent in 1924, 73 per cent in 1942 and 79 per cent in 1953.

In *Germany* the nine big banks have concentrated in their hands the following percentage of bank deposits: 1907–08 47 per cent; 1912–13 49 per cent; 1924 54·6 per cent; 1934 65·5 per cent. In 1943 the six biggest banks held 62·9 per cent of bank deposits. After the Second World War and a momentary decentralisation, the three chief banks have again been playing a predominant role in the sphere of credit. In 1956 they were behind 55 per cent of all German bank credits, exactly the same percentage as in 1938.

In *Japan*, the total number of banks fell from 2,155 in 1914 to 1,001 in 1929, 424 in 1936, 146 in 1942, less than 100 in 1943 and 61 in 1945, according to the Japan Economic and Financial Annual. The five biggest banks concentrated 24·3 per cent of all bank deposits in 1926, 34·6 per cent in 1929, 41·9 per cent in 1936 and 62 per cent in 1945 (the eight biggest banks). After the American decartellisation measures this percentage fell below 10 per cent, to climb back to 35 per cent by 1953.

As for the *U.S.A.* the total number of national banks rose from 3,732 in 1900 to 8,030 in 1920, then fell to 7,536 in 1929, 5,209 in 1939 and 5,021 in 1945. Among these banks the ones possessing a capital of their own in excess of 5 million, that is, 21 in 1923, 39 in 1930 and 40 in 1934, concentrated 22·1 per cent, 43·3 per cent and 47·8 per cent respectively of all the bank deposits.

The concentration of funds available for investment in a small number of banks, at a moment when industry urgently needs these funds in order to take advantage of the considerable expansion of business, becomes one of the chief factors promoting industrial concentration. Here is a significant dialogue on this subject between the U.S. Secretary of the Interior, Mr. Chapman, and Mr. Celler, the Chairman of the House of Representatives sub-committee to investigate the power of monopolies:

> MR. CHAPMAN: "To develop a steel plant the outlay in capital is extensive, very extensive . . ."
> MR. CELLER: "He [the possible founder of a new steelworks] would have to go to the financial institutions, would he not?"
> MR. CHAPMAN: "He would."
> MR. CELLER: "And if those financial institutions have liaison or connection with the existing companies, they would not be likely to set forth any new competitors; would they?"

MR. CHAPMAN: "Obviously they would not do that. They have not been doing it."[44]

In Belgium, by way of exception, banking capital has played the role of *finance capital* from the very beginning of the independent kingdom, that is, it has dominated industry ever since its first phase of expansion, through preponderant shareholdings in the first limited companies, a position subsequently strengthened still further in the age of colonial expansion:

"In the last years of the Dutch period, the Société Générale advanced capital to coal-mining firms. In addition, it helped in the building of canals for the purpose of facilitating the despatch of coal to France. When the Revolution (of 1830) brought about an industrial crisis, some collieries found themselves unable to repay the debts they had contracted. The bank loan thus became transformed into a lasting investment by the bank in these firms, and in order to mobilise this investment the collieries concerned were turned into limited companies, this operation being carried out in 1834–1835 . . . When economic recovery set in, when the building of railways was decided on and steam-engines had become widespread, industrial enterprises too had to be transformed and developed. Quite as a matter of course, the idea of turning them into limited companies was accepted. . ."[45]

In France, after the unsuccessful initiative of the Crédit Mobilier, launched by the Péreire brothers, the investment banks gave strong support to the establishment of industrial firms during the 1870s and 1880s. The Banque de Paris et des Pays-Bas and the Banque d'Indochine presided over the expansion of French business in the colonies acquired after the war of 1870–1871.

In Germany, the A. Schaffhausener Bankverein played a similar predominant role in financing the tremendous industrial advance of the 1870s. From the beginning of the twentieth century, the heads of the six chief German banks were members of the boards of directors of 344 industrial companies.[46] Finance capital soon "imposed itself" on industry,* as is shown by the following letter which one of the big banks sent to the board of directors of the Zentrales Nordwestdeutsches Zementsyndikat, 19th November, 1901:

"We observe from the announcement you have published in the

* How the big banks intervene in the running of the businesses of their small debtors is shown by the following passage, which refers to the Bank of Italy, ancestor of the Bank of America: "It was about this period (*c.* 1921) the Bank of Italy began putting the borrowing farmer on a budget, a radical departure for that day. The budget ran the whole gamut of farming costs: capital expenditures . . . ; materials and supplies . . . operating costs for crop-ploughing, cultivating, irrigating, pruning, harvesting and hauling; an estimate of monthly advances; and crop forecasts. Behind every budget was a watchful Bank of Italy man—branch manager, field man or appraiser—to see that the borrower lived up to his contract . . ."[47]

Reichsanzeiger of the 18th inst. that we must expect that at the next general meeting of your company, to be held on the 30th inst., decisions may be adopted which could imply changes in your firms which would be unacceptable to us. For this reason, and to our great regret, we are compelled to cancel as from now the credits which we have hitherto allowed you . . . If, however, the general meeting should not adopt these unacceptable decisions, and provided that we are given suitable guarantees for the future on this matter, we shall be prepared to open discussions with you regarding fresh credits."[48]

In the U.S.A. the investment bankers played a dominant role in industrial concentration, beginning with the "consolidation" of the railway companies. Already during this campaign the bankers clearly announced the *monopolistic* purpose of these concentrations. We have a plain expression of this purpose by John P. Morgan, in the following declaration which he made to the heads of all the railway companies west of the Mississippi on 10th January, 1889:

"I am quite prepared to state in behalf of the (banking) houses represented here that if an organisation can be formed practically on the basis submitted by the committee, with an executive committee able to enforce its provisions, upon which the bankers shall be represented, they are prepared to say that they will not negotiate, and will do all in their power to prevent the negotiation of, any securities for the construction of parallel lines or the extension of lines not unanimously approved by such an executive committee."[49]

And in the great merger movement between 1896 and 1904 it was the bankers who played the key role: "Though the captains of industry themselves engineered most of the combinations before 1890, the bankers and financiers soon ceased to be mere intermediaries. They became the promoters. In organising large consolidations they soon took the place of the roving professional promoters who had for a time offered the investing public corporate securities with a strong speculative appeal. It was under their auspices, and spurred by their encouragement that the combination movement rose to flood tide around the turn of the century."[50]

Finally, in Japan it was the banks that took the place of the holding companies after the Second World War as central pillars of the Zaibatsu, the financial groups controlling the country's national economy. An investigation carried out in 1953 showed that in the 320 most important companies the banks held altogether 35·1 per cent of the shares and the insurance companies 16·1 per cent.[51]

Monopolies

The concentration of industrial capital and the formation of capitalist alliances, groups and trusts, resulted in the establishment of *de facto* monopolies in a number of sectors of industry. A single firm or a small number of firms were in control of such a substantial slice of production that they could, over fairly long periods, fix prices and rates of profit as they wished, these becoming largely independent of the state of business.*

Analysing the conditions under which the 1,807 most ordinary products were manufactured in the U.S.A., Walter F. Crowther discovered in 1937 that *half* of these products came from sectors in which not more than four firms were responsible for over 75 per cent of production. In 1947 this picture had become even more impressive. Here are some of these indices of concentration, reported by the American Department of Commerce for that year.

Products produced to the extent of 50 per cent or more of total value by a single firm

	%		%
Fire extinguishers	85	Incandescent lamps	59
Films for amateurs	85	Linoleum	58
Conic bearings	80	Binding machines	56
Tinned soup	66	Tinned foods	55
Ball bearings	60	Crude aluminium	55

Products produced to the extent of 66 per cent or more of total value by two firms

	%		%
Industrial gases	85	Milk bottles	70
Locomotives	80	Lorries	68
Sewing machines	78	Synthetic yarn	68
Refined copper	74	Motor cars	63

Products produced to the extent of 66 per cent or more of total value by three firms

	%		%
Agricultural binders	92	Cigarettes	78
Domestic cotton thread	90	Tractors	76
Refined rubber	88	Spectacles	75
Crude copper	88	Office machinery	70
Cotton gauze bandages	85	Enamelled metal	70
Fruit jars	85	Electric cookers	69
Explosives	80	Electric tubes	68
Soap	80	Rubber tyres, etc.[53]	70
Calcined plaster	79		

* Here is an extreme example. The American trust General Electric acquired in 1928 a complete monopoly of the American market for tungsten carbide, an alloy which is indispensable for high-speed machine tools. Through the establishment of this monopoly, the price of tungsten carbide leapt from 50 to 453 dollars a pound, and stayed there all through the crisis, right down to 1936. The cost of production was 8 dollars.[52]

In Britain a study published in 1945[54] gives the following percentages of the value of production held in each sector by the three, or fewer, biggest firms, based on the census of 1935:

	%		%
Condensed milk	96	Ball bearings	97
Matches	97	Cigarettes	88
Refined sugar	82	Railway wagons	86
Motor spirit	88	Cement	76
Rayon	79	Paper hangings	91
Screws for wood	98	Zinc	100
Barbed wire	92	Dyes	88
Vacuum cleaners	85	Gramophone records	99
Bar chocolate	85	Lithophone	100
Sewing machines	93	Cocoa	93
Nickel and nickel alloys	100	Linoleum	86
Pipes	92	Wireless valves	85
Explosives	100	Soap flakes	77
Tyres	79		

In addition, 118 articles were manufactured by one or two firms only.

In West Germany Pritzkoleit estimates in his work *Männer, Mächte, Monopole*[55] that three trusts dominate the zinc and lead industry: Metallgesellschaft, Degussa and Otto Wolff. Potash mining is dominated by three firms, the chief of which, Wintershall, also controls over 50 per cent of Germany's production of crude petroleum. R.W.E. controls two-thirds of the production of electricity for industrial consumption and nearly three-quarters of lignite production. More than half of the production of margarine and of fishing as a business are dominated by Unilever. The Swiss Nestlé group dominates the market for condensed milk, concentrated soups and chocolate. One group alone (Reemtsma) controls 60 per cent of the cigarette industry and two groups (Lever and Henkel) 90 per cent of the detergent industry. Delog produces 50 per cent of window glass. Two groups, Glanzstoff and Phrix, produced more than three-quarters of all plastic materials. Siemens and A.E.G. produce 40 to 50 per cent of electric apparatus. A single group, Pfaff, controls 60 per cent of the production of sewing machines, etc.

As regards the heavy industry of the Ruhr, in spite of the decartellisation decided on in 1945, seven big firms (Mannesmann, Klöckner, Dortmund-Hörder Union, Phoenix Gute Hoffnungshütte, Rheinhausen and Hœsch) in 1954 again concentrated over 65 per cent of production in their hands, and fresh concentrations were reported within these groups. (See the speech by Mr. A. Wehrer, member of the Supreme Authority of the C.E.C.A., at Longwy, 12th November, 1955.)

In *France*:

Five groups (Sidelor, Lorraine-Escaut-Saulnes, De Wendel, Schneider, Usinor) controlled 55 per cent of the production of iron ore in 1952 and 62 per cent of steel production in 1953.

Pechiney-Ugine holds a quasi-complete monopoly of aluminium, magnesium and cobalt; Penarroya (Rothschild) controls three-quarters of lead production.

The Raty group has a quasi-monopoly of the manufacture of steel tubes, and the Sidelor group a quasi-monopoly of the manufacture of brass pipes.

Four groups (Renault, Citröen, Peugeot and Ford) control 98 per cent of the production of motor cars for private use.

Three companies controlled in 1953 61 per cent of the production of tractors.

Three groups of manufacturers completely monopolise the making of light bulbs.

The Kuhlmann group produces 80 per cent of all dyes.

The Saint-Gobain group produces two-thirds of all mirrors, half of all glass bottles, beakers and drinking-vessels, all fibreglass, etc.

The Gillet group, which has the monopoly of nylon, produces more than two-thirds of all artificial textiles.

Three groups supply 86 per cent of France's production of newsprint, etc.[56]

In *Japan* the evolution of control by a single trust over the chief sectors of the economy emerges from the following table: [57]

PERCENTAGE OF PRODUCTION CONTROLLED BY THE MITSUI TRUST

	1900	*1920*	*1943*
Petrol	50	50	90
Iron	90	95	92
Gold	5	19	27*
Coal	30	27	27*
Armaments	—	25	30
Alcohol	10	15	45
Celluloid	—	80	100
Paper	50	50	90
Cement	15	15	20*
Wool	10	15	30
Silk	25	15	45

* With satellite firms, at the end of 1941, 68 per cent of gold production, 50 per cent of metallurgical production, 55 per cent of that of cement, 45 per cent of that of electric power, 80 per cent of fisheries, 50 per cent of beer and sugar.

PERCENTAGE OF PRODUCTION CONTROLLED BY MITSUBISHI

	1900	*1920*	*1943*
Zinc	—	57	50
Tin	—	90	90
Shipbuilding	40	40	60
Aircraft	—	—	30
Armaments	—	30	30
Alcohol	—	—	50
Glassware	—	65	90
Artificial wool	—	—	50*
Beer	25	30	45
Sugar	15	15	45
Trade in wheat	30	30	48
Maritime transport	40	39	35*

After the de-cartellisation measures following the end of the Second World War, the monopolistic structure of Japanese industry was kept in being, as can be seen from the following table published in *The Oriental Economist*, July 1966:

Products which are produced to the extent of 66% or more of total value by three firms:

	%		%
Sheet glass	100	Rayon filament yarn	79·8
Three-wheelers	100	Cheese	77·8
Ordinary passenger cars	100	Small passenger cars	75·6
Light passenger cars	98·7	Polyethylene	75·0
Beer	96·2	Zinc	74·9
Powder milk	94	Lead	74·4
Polyester	92	Small trucks	74·1
Aluminium ingots	90·6	Wide steel hoops	67·6
Polyvinyl Chloride	89·4	Lubricating oil	66·7
Calcium cyanamide	83·5	(five firms)	
Butter	82·1	etc.	
Nylon	81·1		

In *Italy* the report of the Constituent Assembly's economic commission gave the following indices of concentration for 1947:[58]

* With satellite firms, end of 1941, 70 per cent of artificial silk production, 80 per cent of maritime transport.

Sector of industry	*No. of trusts*	*Percentage of production controlled*
Rayon	2	90
Aluminium	3	95
Mercury	1	70
Shipbuilding	3	86
Rubber	4	82
Motor cars	2	84
Matches	1	81
Ball-bearings	1	90
Coal	3	86
Synthetic ammonia	2	86

The empires of the financial groups

The actual power of the great monopolies nevertheless very greatly exceeds the mere control of certain sectors of production where they dominate the market. The financial groups which control these sectors are also masters of banks, insurance companies, industrial, commercial and transport companies which bear a wide variety of names and give no cause for supposing, at first glance, that they inter-connect. In order to sort out these often slender threads one has to undertake detective work, studying the composition of boards of directors, analysing the work of companies which have chairman or delegated directors in common, trace the past evolution of the blocks of shares represented at extraordinary general meetings, and examining, if possible, the general division of the shares of all the important companies in the given country.

At the end of this research the same structure is discovered to exist in the majority of the capitalist countries: a handful of financial groups possessing control over a large proportion of industrial and financial activity; some 60, 125 or 200 families, placed at the apex of the social pyramid, who wield their power sometimes as individuals but often as a more or less compact collective group.

The participation of representatives of financial groups in the boards of directors of many important trusts gives a key to the extent of the control they exercise.

Thus, in the *United States*:

Winthrop W. Aldrich, chairman of the powerful Chase National Bank (Rockefeller group) was in 1948 also head of the richest trust in the world (assets of 10 billion dollars), the American Telephone and Telegraph Company; a director of the biggest insurance company in the world, the Metropolitan Life Assurance Company; of the Westinghouse electric trust, the International Paper trust, and the banks Discount Corporation of New York and Chase Safe Deposit Company. This man shared control of more than 20 billion dollars of capital, or 9,000 billion francs (the equivalent of three of France's annual budgets at the beginning of the 1950s).

George Whitney, partner in the bank J. P. Morgan and Company, was in the same year a director of the electricity trust Consolidated Edison of New York, of the General Motors Company, of Kennecott Copper, of the Pullman Company, the Continental Oil Company and the big bank called Guaranty Trust Company.

R. K. Mellon, chairman of the Mellon National Bank, is at the same time head of the holding companies F. Mellon and Sons and Millbank Corporation and a director of the Aluminium Company of America (ALCOA), the Gulf Oil Company, the electric power trust Westinghouse Air Brake Corporation, the Pittsburgh Plate Glass Company, the Pennsylvania Railroad Company, the gas trust Koppers Corporation, the Union Switch and Signal Company, and the big insurance companies named National Union Fire Insurance Company, General Reinsurance Corporation and North Star Reinsurance Company.[59]

In *France*, according to the *Annuaire Desfossés* for 1958:

Emmanuel Monnick, chief executive of the Banque de Paris et des Pays-Bas (of whose board of directors he is chairman), holds directorships in thirteen companies, including the chief French oil company, Esso-Standard, the Suez Canal Company, the Bank of Indochina, the Ottoman Bank, the Credit Foncier Franco-Canadien, Hachette's Bookshops, the Sugar Refineries of St. Louis, the Forges et Acieries du Nord et de L'Est.

Pierre Getten, chief executive of the Rothschild group, sits on eighteen boards of directors. He is chairman of those of the Belgian Société des Mines, Minerais et Metaux, the Indochina and Yunnan Railways, and the Société de Contrôle de l'Exploitation des Transports Auxiliaires. He is vice-chairman of the Compagnie des Chemins de Fer du Nord (one of the chief holding companies of the group), of the powerful world-wide iron-ferrous metals trust Penarroya, of Entrepôts et Magasins Généraux de Paris, and of various concerns in the north of France. He is a director of several companies, such as Djibouti Railway, the Belgian steel trusts Cockerill-Ougrée and Providence, the International Sleeping Car Company, Forges et Acieries du Nord et de l'Est, Omnium Nord-African, etc.

Baron Rodolphe Hottinguer is chairman of the board of the Schneider engineering trust and director of eleven companies, including Kléber-Colombes, Compagnie des Minerais et Métaux, Vieille-Montagne, the Ottoman Bank, Forges de Châtillon-Commentry et Neuves-Maisons, etc.

It is to be observed that the families of big investment bankers hold many directorships: 28 in the case of the Hottinguers, 39 for the Mallets, 51 for the Vernes, 16 for the Nervos—four families which are, moreover, linked together by marriage. The De Vogüé family hold 21 directorships, the De Wendels 17, the Laurents 29, the Foulds 5, the Gillets 37, the De Vitry d'Avancourts [of Péchiney!] 12, the Marquis de Flers 16, etc.

In *Britain*:

The nine directors of the Midland Bank sat in 1951–52 on the boards of 38 companies, including Imperial Chemical Industries, Dunlop Rubber, J. & P. Coats, International Nickel, etc. The nineteen directors of Lloyds Bank sat on the boards of 75 companies, including Royal Dutch Shell, Vickers, Rolls Royce, English Electric, etc. The thirteen directors of the National Provincial Bank sat on the boards of 60 companies, including British Petroleum (formerly Anglo-Iranian), Imperial Tobacco, Burma Oil, Tube Investments, Prudential Insurance, Ford Motors, and a number of tea firms.

In *West Germany*, the law forbids anyone to be a member of more than 20 boards of directors. This law has not been respected, since in 1954 the banker R. von Oppenheim was a member of 35 boards, the big industrialist Werhahn of 23, etc. Here are two particularly flagrant examples of accumulation of economic power, by way of interlinked companies:

In 1954 the banker *Hermann Abs* was on the boards of the Süddeutsche Bank, Glanzstoff, Badische Anilin (I.G. Farben), Zeiss Ikon (the chief photography trust), Siemens and Halske (the chief electrical construction company), Delog (50 per cent of Germany's glass production), Salamander (chief leather goods firm), Norddeutsche Lederwerke, Accumulatoren-Fabrik A.G., Metallgesellschaft, Philip Holzmann A.G. (building), Kali-Chemie, Süddeutsche Zucker, Dahlbusch collieries, Rheinpreussen, Deutsche Solvay-Werke, Deutsch Shell A.G., Portland Zementwerke Heidelberg, R.W.E. (Chief electric-power producing firm), Dortmund Hörder-Union (one of the main steelworks), and some "minor" businesses—24 directorships in all.

In the same year the banker *Pferdmerges* was a member of 26 boards of directors, including A.E.G. Klöckner, Harpener Bergbau (chief colliery), August Thyssen-Hütte, Kabelwerk Rheydt, Felten and Guillaume (rubber), Demag, Keksfabrik H. Bahlsen, Rheinische Kurstjeide, Schöllersche Kammgarnspinnerei, Deutsche Centralbodenkredit A.G. (chief building society), Rheinisch-Westfälische Bodenkreditbank and a dozen insurance companies, including Concordia, Nordstern and National.

Here are the chief financial groups in certain countries:

In the *U.S.A.* at the end of 1952 there were seven principal groups, which were themselves interlinked:

The Morgan-National-City Bank Group, controlling *inter alia* the biggest steel trust in the world, United States Steel; the biggest electrical apparatus trust in the world, General Electric; the second and third biggest copper trusts in the U.S.A., Kennecott Copper and Phelps Dodge; the Baldwin Locomotive Works, chief producer of Diesel locomotives; Montgomery Ward and Company, the second biggest mail order firm in the U.S.A.; the gigantic American Telegraph and Telephone Company, which holds the most important assets of all the non-financial joint-stock companies in America and controls a significant proportion of the public services; important railway networks (the New York Central and Alleghany systems); the New York Insurance, Mutual Life and Prudential Insurance companies, and two big banks besides the Morgan National City Bank, the Guarantee Trust Co. and the Bankers Trust Co.

The *Kuhn-Loeb group*, dominated by the Warburg family, is based on investment banks and controls 22 per cent of the important railways of the U.S.A., the Western Union Telegraph Company, the Bank of Manhattan, etc.

The *Rockefeller group*, which works by ownership of substantial blocks of shares in the companies it controls, including one of the most important American banks, Chase National; the biggest insurance company, Metropolitan Life; and the Standard Oil and Vacuum Oil trusts, which together refine more than half of America's petrol. It controls the Eastern Airlines, and, in combination with the Morgans, the Olin Mathieson chemical trust and International Paper.

The *Mellon group*, which works both by ownership of decisive blocks of shares and by centralisation through banking of the firms it controls, including ALCOA (the chief aluminium trust in the world), Koppers Company (the chief producer of industrial gas in the U.S.A.), the Gulf Oil Company (one of the chief petrol-producing firms), three steel trusts located at Pittsburgh, the Pullman Company, the main producer of rolling stock, and, probably, Westinghouse Electric, the second electrical apparatus trust in the U.S.A. (in conjunction with the Rockefeller group).

The *Du Pont group*, working from a holding company which possesses decisive blocks of shares in the companies under its control, which include the E.I. Du Pont de Nemours Company, the world's leading chemical trust; General Motors, the leading motor car trust in the world; United States Rubber, the third biggest rubber goods firm in the U.S.A.; Bendix Aviation and North American Aviation, two of the chief aircraft trusts in the U.S.A.; the National Bank of Detroit, etc.

The *Chicago group*, which unites several of the 60 families: the MacCormicks, the Deerings, the Nemours, the Fields, etc., and controls International Harvester, the chief agricultural machinery trust; Armour and Company, the chief frozen meat trust; Sears Roebuck, the main mail order company of the U.S.A.; Marshall Field and Company, one of the principal department stores; the steel trust Inland Steel, and two powerful banks, First National Bank of Chicago and Continental Illinois National Bank.

The Bank of America group, the chief bank of the United States, which exercises widespread control in the state of California, notably over Clayton and Anderson, the chief cotton trading firm, over a number of public utility companies, over the Kaiser group of industries, and over 25 per cent of the cultivated land of California.

In *Britain*:

Imperial Chemical Industries has a *de facto* monopoly of the production of basic chemicals in Britain, and is today the biggest trust in Europe.

Unilever controls most of the margarine industry throughout Europe and also the trade in vegetable oils in Africa, and is in fact one of masters of the latter continent. It likewise controls soap production in several countries.

The *British Motor Corporation*, the outcome of a merger between Austin and Morris, today dominates the British-controlled production of motor cars in Britain.

Courtaulds controls 80 per cent of British production of artificial silk and plays a preponderant part in the chemical textile industry.

Oppenheimer (De Beers) controls the world's production of diamonds and has a considerable influence in the production of copper and gold.

Dunlop Rubber dominates Britain's rubber production.

Royal Dutch Shell—like Unilever, an Anglo-Dutch company—dominates oil production under British control in a number of countries, owns a large fleet of oil tankers, etc.

Vickers Armstrong (armaments) is linked with several steel, electricity, etc., firms.

The *Spens group* controls a big share of the world's production of tin, etc.

Interpenetration among these big trusts, deposit banks, insurance companies and merchant bankers is very extensive, and it is often hard to decide who actually controls these impressive aggregates. Thus, the house of Baring and the Midland Bank seem to play a preponderant role in the I.C.I., the Prudential insurance company in the Birmingham Small Arms Company; the Lazards in Rolls Royce, etc. The Wolfson, Cadbury and Gluckstein families control, respectively the

Great Universal Stores, the chocolate trust named after the Cadburys, and the Lyons trust.

In *West Germany* the decartellisation and bank-deconcentration measures were soon done away with. Financial groups again dominate West German industry, though not always in the same forms or with the same balance of forces as before 1945.

The *I.G. Farben group* continues to be the principal German monopoly group, controlling the chemical industry and the Rheinische Stahlwerke, and being closely linked with some important banks, such as the Deutsche Bank and the Berliner Handelsgesellschaft.

The *Thyssen group*, which via various heirs and heiresses of Fritz Thyssen controls once more some important steel-making and coal-mining groups, as also a big shipyard.

The *Mannesmann group*, which controls a big proportion of steel tube production, owns a powerful coal and steel combine, is closely linked with the Deutsche Bank and Deutsche Erdöl A.G., etc.

The *Haniel group*: Gutehoffnungshütte, Commerzbank, linked to M.A.N. and Deutsche Werft.

The *Klöckner group* (steel and engineering) linked with the Deutsche Bank and Siemens.

The *Krupp group* (Rheinhausen, Krupp works, Weser A.G. naval dockyard, three coal mines), linked with the Swedish group Wenner-Gren, the Bochumer Verein, Wasag-Chemie, etc.

The *Flick group*: Maximilianshütte, Buderus'sche Stahlwerke, Daimler-Benz, Auto-Union, Feldmühle Papier and Zellstoff, as well as important foreign investments.

The *Siemens group* (Siemens and Halske), linked with Mannesmann, Deutsche Bank and Klöckner.

The *Quandt group*: Accumulatoren-Fabrik A.G., Karlsruhe A.G., Wintershall (chief potash producers), Correcta, etc.

The *Werhahn group*: oils, soap, chocolate, flour, influence in R.W.E. (chief electricity producer), Heinrich Lanz A.G., linked with the Oppenheim banking firm, etc.

The *Stumm group*, controlling Neunkirchener Eisenwerk and Dillinger Hüttenwerke (Saar), has penetrated the Michel group and has a considerable amount of shares in the steel industry of Lorraine (Sollac).

The *Oetker group*, controlling the food trust of the same name, dominates an important group of breweries, owns the three insurance companies of the Condor group, has acquired several shipping lines, which have made it the principal shipowning firm in Germany, and has shares in the private bank named Lampe, which plays a big part in the food industry.

The banking group of *Merck, Finck and Company*, which has preponderant influence over the insurance companies of South Germany, the Isarwerke, etc.

The *Oppenheim banking group*, which has preponderant influence over the insurance companies of the Rhineland.

In *Belgium*, eight financial groups—Société Générale, De Launoit, Solvay, Empain, Evence Coppee, Baron Lambert, Petrofina, Sofina—control nearly two-thirds of the country's industrial production and over three-quarters of the economy of the former Belgian Congo.

In *Italy*:

The *Montecatini group*, which controls the country's chemical industry, included in 1945 eighteen directors who were on the boards of a total of 63 joint-stock companies, owning 25 per cent of all the capital of Italian firms (especially strong in textiles, metallurgy, insurance).

The *Edison group* controls the electric power and electrical apparatus, industries, and has shares in firms representing 17 per cent of all the share capital in Italy (especially transport, banking, extraction industries, glass).*

The *Flack group* dominates the steel industry.

The *Snia Viscosa group* dominates the artificial textiles industry.

The *Fiat group* dominates the motor car industry, with large holdings in metallurgy and steel, the glass industry and chemicals.

The *Pirelli group* dominates the rubber industry, with a considerable footing in metallurgy.

The *Caproni group* has a quasi-monopoly of armaments production.

The *Breda group*: rolling stock, engineering, etc.

In *Japan*, before the defeat of 1945, the three super-trusts, or Zaibatsu, completely dominated the economy; today they have recovered most of their power. Here is a table showing the trusts they controlled, the companies embraced in these trusts and the capital concentrated in this way:

		In millions of yen	
	No. of companies directly controlled	*With capital in 1939*	*With capital at end of 1942*
1. *Mitsui Group*			
Mitsui	112	1,428	1,875
Mangyo*	100	1,249	1,712
Furokawa	21	107	160
2. *Mitsubishi Group*			
Mitsubishi	74	1,291	1,745
Nichitsu	32	471	557

* Recently, the Montecatini and Edison groups have decided to merge.

Mori	30	275	330
Nisso	44	165	195
3. *Yasuda Group*			
Yasuda	50	484	584
Asano	47	270	270
Okura	40	176	176
4. *Sumitomo Group*			
Sumitomo	27	442	624
Noruma	26	159	159
Dominated by the big four:			
Riken	60	102	130
Independent: Kawasaki	24	99	200
4 super-trusts, 14 trusts	687	6,724	8,717

Since then, in spite of decartellisation measures, the pre-war situation has been largely restored. Three Zaibatsu are emerging: the Mitsubishi (who at present hold first place), the Mitsui and the Sumitomo. There are also two other important groups: the Fuji Bank group and the Sanwa group. These financial groups have to a large extent acquired predominant influence in the new industries that have arisen in Japan since the war. Thus, the Mitsubishi group wields predominant influence over the principal iron and steel trust, the Yawata Iron and Steel Co. The Sanwa group appears to dominate the iron and steel trust Kobe Steel. The Mitsui group controls the car trust Toyota Motor Co. Of the five principal ship-building firms, three are controlled by the Mitsubishi, the Mitsui and the Sanwa. A similar situation is taking shape in the petrochemical industry.

In *France* Professor Oualid observed before the war that there were "great committees standing at the head of the principal large branches of production . . . The best known and most powerful are the Comité des Houillères, the Comité des Forges, the Comité des Armateurs, the Comité des Industries chimiques, and the Comité des Assurances. These great committees, which in theory are not cartels but rather super-syndicates, help to maintain a spirit of collaboration among their members which is incompatible with their former competition with each other." About the same time, Augustin Hamon, in his book *Les maîtres de la France,* grouped the trusts into the following super-groups:

The *Schneider-Creusot group*, dominating the steel industry (Comité des Forges), linked with the Banque de l'Union Parisienne and the Mirabaud, Hottinguer, Mallet and De Neuflize investment banks, which control most of the big insurance companies.

The *Banque de Paris et des Pays-Bas group*, wielding predominant

* The Mangyo group, set up and developed by the army, dominated Manchuria under Japanese occupation, but was absorbed in 1943 by Mitsui.

influence in North Africa and, through the associated Bank of Indochina, in Indochina also.

The Chemical Industry groups: *the Rhône-Poulenc, Kühlmann* and other trusts.

The *Michelin-Citroën group* (rubber and motor car trusts).

Recently, Jacques Houssiaux has listed the following additional groups:

The *Louis-Dreyfus group* (petrol, foreign trade).

The *'Printemps' group* (big stores).

The *Péchiney-Seichime group* (chemicals, Laminoirs du Havre, large influence in Thomson-Houston, etc.).

The *Saint-Gobain group* (glass and chemicals).

The *Boussac group* (textiles).

The *Fould group* (naval dockyards, Ateliers de la Loire, Compagnie française des Pétroles, etc.).

The steel-making groups: *De Wendel, Usinor, Sidelor*, etc.

In *India*, a government report published in 1966 (Report of the Monopolies Inquiry Commission, 1965) shows that seven groups control 382 non-financial firms, with a total capital of 11·5 billion rupees. These groups—Tata, Birla, Martin Burn, Bangur, A.C.C., Thapar, Sahn Jain—along with some other groups such as Bird Heilgers, Singhania, Walchand, etc., and some foreign trusts, dominate the modern sector of the Indian economy.

Monopoly super-profits

Confronted with the increase in the organic composition of capital and with the growing risks of depreciation of fixed capital in a period when periodical crises are regarded as inevitable, monopoly capitalism aims above all to safeguard and increase the rate of profit of the trusts.

J. M. Clark notes that modifications in technique, changes of fashion which affect the goods produced, may render unusable equipment which is not yet worn out. Thus, the depreciation of specialised machines must be effected in a small number of years, if one wishes to avoid the consequences of this risk.[60]

In this way a monopoly rate of profit is established, higher than the average rate. It is the "control" of the free flow of capital, or the elimination of competition, that enables the monopoly sectors to escape from participating in the general equalisation of the rate of profit.

The simplest form of monopoly super-profit is *cartel rent*. The formation of a cartel in a particular sector of industry brings about the unification of prices. This does not take place, however, on the basis of the average profit, that is, on the basis of the average social productivity. On the contrary, it takes place on a basis which enables that participant in the cartel who works with the lowest *productivity* to realise the average rate of profit. The difference between the price of production of the other participants and the selling price of the least advantageously placed participant constitutes the cartel rent.

Thus, when the cartel of rail manufacturers was formed in 1883, it worked like this, according to a witness who was directly involved: "The price was fixed from England 'at very much what we considered the cost price would be at the least favoured works', and the different works were given a quota according to their 'assessed capabilities'."[61]

Let us suppose that the average rate of profit is 20 per cent and the average organic composition of capital 4 : 1. A locomotive cartel combines four companies whose production has the following value:

I:	$600\,c + 100\,v + 100\,s = 800$
II:	$400\,c + 100\,v + 100\,s = 600$
III:	$350\,c + 100\,v + 100\,s = 550$
IV:	$250\,c + 100\,v + 100\,s = 450$

Let us assume that the production of firms III and IV represents two locomotives, that of firm II three and that of firm I four. If there were free competition of goods and capital within this sector, each of the four firms would realise 20 per cent profit. Firm IV would sell its locomotives for 420 (210 each); firm III for 540 (270 each); firm II for 600 (200 each); and firm I for 840 (210 each). But this average profit would be realised only so long as, demand balancing supply on the market, even the dearest locomotive would still find a purchaser. As soon as supply outstripped demand, firm III would have to sell at a loss.

But from the moment that the cartel is in effective control of the market, the calculation will be made quite differently. It is firm III that is in the least advantageous position; it is its selling price that will provide the basic price accepted by the entire cartel. The locomotives will thus be sold at 270 each. The selling price of I will be 1,080 (380 profit, of which 140 average profit and 240 cartel rent). The selling price of II will be 810 (310 profit, of which 120 average profit, 190 cartel rent). The selling price of III will be 540, its profit being equal to the average profit. The selling price of firm IV will be 540 (190 profit, of which 70 average profit and 120 cartel rent). As soon as demand falls the cartel will reduce its production, and it will be possible thus to maintain prices which imply huge superprofits.

In practice things do not happen very differently from this. When the tin cartel was formed, the price of production of the mines of *average* productivity was around £100 per ton. So that the producers with the lowest productivity might realise their average profit, a selling price for tin of £190 to £230 per ton was imposed by the cartel on the world market between 1934 and 1943. Several firms in this way made a super-profit of more than £100 per ton![62]

The British Commission inquiring into Monopolies and Restrictive Practices published in 1957 a report on the electrical equipment industry, "organised" in the BEAMA cartel (British Electrical and Allied Manufacturers' Association), and this report contained the following passage:

"The general case put forward by the manufacturers in defence of their common price system has not convinced us that the degree of stability they aim at is in the public interest, that the dangers they fear from price competition are real, or that the standards by which they propose that their system should be judged are the right ones. We are satisfied that, after making all possible allowances for differences in costing methods, the true costs of the manufacturers who sell at common prices differ widely. Whether or not these differences in cost are due principally to variations in manufacturing methods and actual product or in manufacturing efficiency, we think that the common price system could not have been maintained unless the higher cost producers exerted considerable influence on the level of price and the lower cost producers agreed to sell at higher prices than they would otherwise be prepared to accept."[63]

The most striking example of cartel rent as a form of monopoly profit is certainly that of the *world oil cartel*. An official inquiry published in 1952 by the U.S. Department of Commerce revealed that the "Big Seven" of the oil industry (Standard Oil of New Jersey, Standard Oil of California, Socony Vacuum Oil, Gulf Oil Corp., Texas Co., Anglo-Iranian—later called British Petroleum—and Royal Dutch Shell) had over a period of years imposed common prices for the oil produced in the Western hemisphere and that produced in the Middle East, though the latter's cost of production was *four to six times lower than that of American oil.*

During the war and in 1945, the American Navy had to pay 1·05 dollars the barrel for oil the cost of production of which (including taxes and royalties payable to the local rulers) was 0·4 dollars in Saudi Arabia and 0·25 dollars in Bahrein.[64] The cartel rent was thus 65 cents per barrel produced in Saudi Arabia and 80 cents per barrel produced in Bahrein, which gives a monopoly rate of profit of nearly 200 per cent in the former case and over 400 per cent in the latter (the "cost of production" here includes, according to capitalist custom, an "average" rate of interest on the shareholders' capital).

In the post-war years these prices were raised to 2·22 dollars, then lowered to 2·03, 1·88 and 1·75 dollars per barrel, without the costs of production in the Middle East having been noticeably changed, with the sole aim of bringing prices into line with those of the American producers.[65]

Cartel rent is, however, only one form of monopoly superprofit. The formation of companies which monopolise their market completely or almost completely likewise makes possible an arbitrary raising of selling prices above the "normal" price of production. After the formation of the U.S. Steel Corporation, steel prices were raised 20–30 per cent, on the average. Rail prices were raised from 16·50 dollars a ton to 28 dollars on 1st May, 1901, and kept there until 1916.[66]

British Oxygen, which enjoys a *de facto* monopoly of the production of oxygen gas, which is indispensable for welding, has fixed its prices so as to be sure, in a good year or a bad, of a rate of profit of 23 to 25 per cent.[67]

The *American Can Company*, which, at the time of its foundation in 1901, enjoyed a practically complete monopoly (90 per cent of productive capacity), immediately raised its prices by 60 per cent.[68]

When a small number of producers is able jointly to dominate the market, a price-fixing agreement intended to ensure monopoly superprofits can easily be concluded. Thus, the disappearance of most of the independent glass-making firms in the U.S.A. enabled the four dominant companies in 1935 to increase the prices of their products by over 40 per cent.[69]

The basing point system in force in a number of American industries consists of fixing prices by adding transport costs (real or fictitious) as from one or more points of production. According to Clair Wilcox[70], this system is in operation in sixty American industries. It means that all the firms which are nearer to their customers than the basing points, or which make use of cheaper means of transport than those whose cost is included in the basing point price, get substantial monopoly superprofits.[71] In an industry like cement, where transport charges make up an important proportion of the selling price, the basing point system has made possible a stabilisation of monopoly prices to the extent that selling prices were increased in *the midst of the crisis*, first in the second half of 1932 and again in the first half of 1933.[72]

But the most widespread method of keeping up monopoly prices and profits is price leadership. "Price leadership exists when the price at which most of the units in an industry offer to sell is determined by adopting the price announced by one of their number."[73] In the American steel industry, after the "pools" of the nineteenth century and the "concerted agreements" at the beginning of the twentieth century (on the occasion of the dinners given by Judge Gary, head of the U.S. Steel Corp., dinners attended by the heads of most of the big "competing" companies), the system of "tacit agreements" was adopted: the scales published by the U.S. Steel Corporation were automatically adopted by the other firms. Burns says that "the available data suggest that some kind of price leadership is present in many of the industries in which production is concentrated in large units."[74]

The equalisation of the monopoly rate of profit

All the same, the monopoly trusts are not able to fix their prices and superprofits in a completely arbitrary fashion, beyond a certain limit.

In the first place, an excessive raising of prices would cause demand and sales to fall and lead to a revival of competition. Thus, the three American cigarette trusts in 1931 controlled 97 per cent of U.S. production. They decided to raise their prices—in the midst of the crisis!—by 10 per cent. This led to the appearance of cigarettes at 10 cents a packet, made by independent firms. In November 1932 these firms were already responsible for 22·8 per cent of American production.[75]

Furthermore, the monopoly sectors of industry are not completely self-sufficient. They have to buy raw material or machinery, and to use means of transport which are themselves controlled by other monopoly sectors. Fierce price battles break out between such adjoining trusts. Given the mutual interdependence of the majority of the monopoly sectors, an *equalisation of the rate of profit in the monopoly sectors* takes place, at least for a certain period. This prevents an *arbitrary* raising of prices and profits.

There is an even more obvious reason for this equalisation. This is that the super-profits of the monopoly sectors are achieved at the expense of the non-monopoly sectors, whose average rate of profit they lower.

Let us assume that the total capital expended in one year is 10,000 c + 2,500 v, and that 2,500 represents the total amount of surplus-value produced in society. If universal equalisation of the rate of profit occurred, the latter would come out at $\frac{2,500}{12,500}$, or 20 per cent. Let us suppose that the monopoly sectors expend every year a capital of 2,500 (2,000 c + 500 v), but, thanks to their high prices, obtain a profit of 1,000. The monopoly rate of profit would then be $\frac{1,000}{2,500}$, or 40 per cent. But this high monopoly profit would bring down the rate of profit in the non-monopoly sectors to $\frac{1,500}{10,000}$, or 15 per cent.

"To simplify matters, we shall assume that the economy can be divided roughly into two sectors, an *oligopolistic* one where profit margins at given utilisation [of plant] are inelastic, and a *competitive* one where the ideal pattern still works with some approximation. In the oligopolistic sector there will be a tendency for profit margins at given utilisation to rise because neither the competition within each of these industries, nor the possibility of new entry will be sufficiently strong to counteract this tendency . . . As a net result of the increase in profit margins at given utilisation in the oligopolistic sector . . . a certain amount of profits, and a corresponding amount of internal savings, have been shifted from the competitive to the oligopolistic sector. The result is hardly surprising because it only confirms the view—acceptable probably to most economists—that oligopolistic industries have the power, by raising prices in relation to cost, to attract to themselves a greater share in the total profits, and consequently also in the total internal savings."[76]

The reason why the monopoly sectors are able to maintain such differences between the rate of profit in different sectors is that the high degree of concentration in these sectors necessitates the gathering of very substantial amounts of capital in order to be able to enter into competition with them. Furthermore, the monopoly trusts subject any potential competitor to the risk of having a furious war waged against him, with prices forced down, if need be, to ridiculous levels, even involving loss, until the competitor is forced to withdraw, after which they can always recover their losses by increasing their superprofits. This is what is called "internal dumping".*

An official report said, for example, about the British trust the Imperial Tobacco Company: " 'A business of such magnitude, commanding so extensive an influence on the retailers and possessing such large reserves, has it in its power, by foregoing its ordinary profit for a short time, to cut prices to such an extent as to place all its rivals out of business and secure the entire, or very nearly the entire, monopoly of the tobacco trade'."[78]

But all these obstacles are not insuperable. If the difference between the average rate of profit and the rate of profit in the monopoly sectors is such that the capitalists in the non-monopoly sectors find themselves faced with ruin, they will risk everything and try by every possible means to infiltrate into the monopoly sectors, either by collecting together the capital needed to organise direct competition or else by seeking new products which in their turn may benefit from monopoly prices (the cartel selling atabrine and other substitutes, in rivalry with the quinine cartel; synthetic petrol or synthetic rubber, in rivalry with the natural products; rayon against natural silk; nylon against rayon; various food products that can be substituted one for the other, etc.). These attempts bring about a revival of competition, which brings the difference between the average and monopoly rates of profit within more "reasonable" bounds.

New technical advances can similarly have the effect of breaking down *de facto* monopolies. This happens, however, less frequently in industry, where monopoly of production is accompanied by monopoly

* "Internal dumping (represents) . . . the practice of certain producers who deliberately sell below their costs of production on the national market, with the aim of ruining their competitors and ousting them."[77]

of scientific research, than in agriculture or the production of raw materials. Thus, Javanese sugar-cane production, taking advantage of a new variety of cane with a 30 per cent higher yield, shook the world sugar cartel towards the end of the 1920s.[79] Again, the discovery of the diamond fields of Lichtenburg and Namaqualand threatened the monopoly of the Diamond Syndicate.[80]

The level of monopoly super-profits can, in many cases, be worked out. During the years 1930–1933 American industry as a whole suffered an overall loss of 3 billion dollars. The Dow and Monsanto chemical trusts, however, made an annual profit of between 7·8 per cent and 14·9 per cent (the latter) and between 12·0 per cent and 9·6 per cent (the former). The average profit of the eight chemical trusts for the worst crisis year in the U.S.A., 1932, was 6·4 per cent. In 1933 it was 9·9 per cent and in 1939 9·7 per cent—two other years of crisis—and reached 15·1 per cent and 13·2 per cent in the prosperity years of 1929 and 1941. This in spite of the fact that the average profit of the 3,000 largest joint-stock companies did not exceed 6·16 per cent during the prosperity period of 1919–1928! These figures are not surprising when one knows that during the entire period of crisis the price of sulphuric acid (to take only this example) remained unaltered at 16·63 dollars a ton from 1928 to 1937! Equally remarkable were the stable profits of the three big American cigarette trusts which, for thirty years, stayed around 17·5 per cent "well above usual competitive levels".[81]

Even more striking are the data for another monopoly sector in the U.S.A., that of incandescent lamps. The General Electric trust obtained during the crisis years annual profits which were higher than 20 per cent (in 1930: 34·39 per cent in 1939: 22·83 per cent).[82]

The 200 largest companies in the U.S.A. absorbed 20·4 per cent of all company profits in 1940 and 24·7 per cent in 1955.[83]

Joe Bain[84] has calculated the average rate of profit for the period 1936–1940 in the monopoly and non-monopoly sectors of industry. Significant differences emerge between the average rates of profit in the two sectors:

Net value of firms in dollars	*No. of firms in Sector I with more than 70 per cent concentration*	*Sector II with less than 70 per cent concentration*	*Average rate of profit Sectors*	
			I	*II*
Over 50 million	23	32	10·4	6·0
10 to 50 million	37	41	9·7	5·3
5 to 10 million	19	24	17·9	8·2
1 to 5 million	33	73	6·3	8·6
0·5 to 1 million	16	14	14·9*	8·3

* The fact that the smallest firms obtained a higher rate of profit confirms the tendency of the rate of profit to fall (see Chapter 5).

Prices indices in the monopoly and non-monopoly sectors (for raw materials and semi-finished products).

	Germany (1928 = 100)		Poland (1928 = 100)		Austria (1923–1931 = 100)	
	Monopoly price	Non-monopoly price	Monopoly price	Non-monopoly price	Monopoly price	Non-monopoly price
1928	100	100	100	100	97	110
1929	103·6	91·2	107·5	93·6	98	100
1933	78·4	45·4	91·9	49·1	104	73
1934	78·3	54·3	87·6	49·1	105	76[85]

According to Goetz-Girey,[86] during the great crisis of 1929, profits fell in France from 100 to 68 in the cartellised industries, whereas in the others they fell from 100 to 35.

The formation of the all-European steel cartel succeeded in raising prices from 30 to 50 per cent after the summer of 1933 . . . And, to take a recent example, in 1951 the Swiss pharmaceutical products trust CIBA made a net profit of 18 million Swiss francs (equivalent to 30·4 per cent of this firm's capital). A dividend of 18 per cent was paid. The Italian chemical trust Montecatini paid in the same year a dividend of 14 per cent and realised a net profit of more than 30 per cent of its capital.

Origins of monopoly profit

The instances we have just considered are those in which the monopoly super-profit results from a raising of the selling price of the monopoly sectors above the price of production. However, monopoly super-profit also arises from *superiorities in productivity* which the monopoly trusts achieve, as compared with small and medium-sized firms and non-monopoly sectors.

These superiorities are first and foremost those of greater efficiency, due to large size. In the U.S.A. and in Britain the profit margin increased in proportion to the size of the companies:

NET MARGINS OF PROFIT ON TURNOVER, U.S.A., 1956

	%
All companies	5·2
Companies with a turnover of 1 to 5 million dollars	2·2
5 to 10 million dollars	3·3
10 to 50 million dollars	4·2
50 to 100 million dollars	5·4
100 million and over	6·8[87]

In Britain, the net output per person increased from an average of £201 for firms employing between 11 and 24 wage-earners to an average of £309 for firms employing 7,000 to 8,000. This increase is practically unbroken, in proportion to the increase in the numbers employed.[88]

The monopoly trusts also benefit from price discrimination in their favour. An American industrialist, Mr. Tom Smith, testifying before the House of Representatives' commission of inquiry into steel prices, used a significant expression: "There is one thing that prevails in the steel industry as in many others. If General Motors wants something, it is going to be a pretty tough steel executive who is going to say 'You don't get it'."[89]

From 1929 onward the American aluminium trust ALCOA stopped its production of magnesium, which was competing with the magnesium produced by Dow Chemicals. In exchange for this concession, Dow supplied ALCOA with all the magnesium it needed, at a price 30 or 40 per cent below that paid by other purchasers. In 1931 there was a "crisis" in the relations between the two trusts, but from the middle of 1933 "good understanding" was restored: the reduction obtained by ALCOA was kept at an average of 28 per cent right down to 1942.[90]

The report published in 1957 by the British commission of inquiry into Monopolies and Restrictive Practices concluded that the chief trust making wireless valves, Mullard (an offshoot of Philips), was selling its valves at 17s. 6d. to retailers (without purchase tax) and at 3s. 6d. to companies manufacturing wireless sets![91]

The American rubber trust Goodyear Tyre and Rubber supplied motor car tyres to the big mail-order firm Sears, Roebuck and Co. between 1926 and 1937 at prices 29 to 40 per cent less than those charged to retailers. Even allowing for the saving actually involved, and the elimination of the wholesaler's margin, the difference between these prices was of the order to 11 to 20 per cent.[92]

A particularly important role is played by the preferential transport charges, especially for railway freight, obtained by the trusts. These scales of charges were a determining factor in the formation and consolidation of the Standard Oil trust.[93] Similarly, the monopoly of transport facilities secured by trusts, such as the pipe-line monopoly which Standard Oil acquired very early in the U.S.A., the U.S. Steel's monopoly of railways in the iron-mining area, in practice compels the sellers to bow to the purchase prices dictated to them by these monopolies.*

Big firms, and especially the monopoly trusts linked with financial groups, obtain capital and credit at low cost, whereas credit charges to small and medium-sized firms are often exorbitant. An inquiry carried out in the U.S.A. showed that in 1937 the issuing of shares for an amount less than 1 million dollars in each case cost the com-

*These trusts are thus able to combine the advantages of *monopsony* (presence of one buyer only) with those of *monopoly*. Ida Tarbell tells how, after getting control of the pipe lines, Standard Oil compelled the producers of crude oil to queue up every day outside its buying offices in order to enjoy the privilege of selling their oil at prices laid down by the buyer.

panies concerned, on the average, 16·5 per cent, whereas these charges were reduced to 7·7 per cent for issues in excess of 1 million dollars. The cost of issuing debentures for these two categories was 8·8 per cent and 3·7 per cent respectively.[94]

For Britain, T. Balogh has shown[95] that the cost of issuing shares fluctuated in 1937 between 6·9 per cent, for companies with capital exceeding £150,000, 15 per cent for those with £50,000–£150,000, and over 20 per cent for those with less than £50,000.

Also to be taken into account is the support given the big firms by the army of lawyers and experts they can gather around them. This support is such that they can not only exploit patents without fear of lawsuits, but can even illegally take advantage of them, since the other party is well aware that he does not have the financial resources to risk a long court case.

The exploitation of patents themselves, and the entire patent system, have served as a means of achieving monopoly super-profits in a large number of sectors of industry. The cases of the Shoe Machinery Co. and of the Hartford Empire trust, manufacturing glass bottles, which were revealed by the Temporary National Economic Committee's inquiry in 1938–40, show that patents can be used to dominate an entire branch of industry for a quarter of a century, at exorbitant cost to consumers.

Monopolies as fetters on economic progress

Monopoly super-profits result from restricting competition. Restricting competition makes it possible to impose on the market prices which are excessive in relation to the price of production. But this mechanism can operate only to the extent that production is adapted to the "effective demand" (the real purchasing power) of the market. Monopoly capitalism consequently develops a series of restrictive techniques which amount to a regular negation of the way the capitalists behaved in the age of free competition:

1. *Deliberate restriction of production.* An up-to-date analysis of the market endeavours to establish the actual capacity to absorb goods. An error on the side of underestimation is not serious; it would only increase the monopoly profit still more. An error on the side of overestimation, however, would risk causing a collapse of prices. The monopolies do not want any increase in production to take place unless its absorption is *guaranteed*. Suppose a trust produces 100,000 units of some commodity, and that the cost of production is one dollar per unit. With a selling price of 1·5 dollars, the gross monopoly profit comes to 50,000 dollars. If, through increasing production to 120,000 one were to be obliged to cut selling prices to 1·4 dollars (only by 7 per cent!) in order to dispose of all the products, the total profit would amount to 120,000 times 40 cents, or 48,000 dollars. The sum

of 2,000 dollars would have been "lost", in comparison with the previously-existing situation.

Furthermore, a radical cut in production is the most effective weapon the trusts possess for checking a tendency for prices to fall and bringing about a recovery in prices. In May 1933 the tin cartel went so far as to restrict production to one-third of world capacity! In 1935 the copper cartel, by restricting production and allowing stocks to shrink by 35 per cent, in face of a growing demand, secured a rise in prices which exceeded 150 per cent.[96] This practice dates from the very beginning of cartels. The Rhenish brick cartel Dortmunder Verkaufsverein für Ziegelfabrikate imposed the following restrictions on production in order to keep prices stable:

1888–1894 average	92 per cent of capacity
1894–1902 average	81 per cent of capacity
1903–1909 average	46 per cent of capacity
1904–1913 average	36 per cent of capacity[97]

The restriction of production is to such a degree the basis of monopoly profits that the trusts are ready to offer big concessions to possible competitors . . . as the price of their abstaining from production! The O. & S. Corrugated Products Co., formed in 1935 in Canada with industrial plant not in excess of 28,000 dollars, received 79,500 dollars from the cartel of cardboard box producers in return for not producing anything in the subsequent two years.[98] In 1938, the world nitrogen cartel, International Nitrogen Association Ltd., undertook to pay 75 million Belgian francs to the owners of the unfinished Ressaix-Leval factory in Belgium if they would call off their project. In 1932 substantial sums had already been paid to ensure that the building of this factory was interrupted.[99] In the 1930s the German cement cartel paid 1·25 million RM every year to the Thyssensche Zementwerke at Rüdersdorf in order to prevent the latter from producing.[100]

2. *Suppression, or delay in application, of technical inventions.* Monopoly capitalism is no longer driven by the motive of competition continually to extend production. The mere existence of monopoly super-profits is to a degree determined by the constant restriction of production. The huge amount of fixed capital may, moreover, lose its value at one blow before it has been depreciated, if production technique is suddenly transformed. This is why the trusts no longer have the same interest as free-competition capitalism had in continually modernising the apparatus of production.*

* "The control of vital areas of research by monopolistic interests . . . retards the introduction of new goods and services . . . The trouble is that in many instances the misuse of research by monopolistic and cartelized groups has resulted in the restricting of production, withholding new products,

Speaking to the British Association, Sir Alexander Gibb declared in 1937: "Of course, here, as always in research, it is the case that the greater the success of research, the more immediate and drastic the effect on existing plant and equipment. That is what the rub sometimes lies . . . and many valuable inventions have been bought up by vested interests and suppressed."[102]

Among the technical inventions the application of which was held up for a long time by the trusts between 1918 and 1939 there may be mentioned the electrification of railways, the underground gasification of coal, the employment of new glass-making machinery, etc. There are more specific data regarding the suppression of technical progress in two sectors: the chemical industry and the electrical apparatus industry.

In 1936 the Monsanto Chemical and Standard Oil trusts suppressed a high-quality lubricant because it would have reduced the sale of similar products manufactured by the same firms, products which were sold in large quantities and which gave more profit, while being less effective.[103] Between 1927 and 1940 Standard Oil suppressed the manufacture of Buna synthetic rubber in the U.S.A., under an agreement made with I.G. Farben and so as not to compete with the product called Neoprene made by the DuPont trust.[104]

At the beginning of 1930, "a superior electric lamp which it is estimated will save electric light users 10,000,000 dollars a year, has been invented but has not been put on the market."[105]

Arthur A. Bright Jr. has brought together many facts to show that General Electric and Westinghouse strove for over ten years to prevent or delay the introduction of fluorescent lighting into the U.S.A.[106] So late as 1939, General Electric asked all its salesmen to refrain from stressing the fact that fluorescent lamps save lighting costs! An American Congress report[107] lists the steel-making processes which the trusts have held back from early application.

A writer so favourably disposed to the monopolies as Professor Hennipman[108] is obliged to conclude: ". . . the obstructive operation of monopoly on innovation by others, especially if resulting from causes other than its own positive achievements, undoubtedly constitutes a very grave danger to progress, a heavy debit item in its account and a severe limitation to the advantage that can be ascribed to monopoly on account of its own superior innovative ability."

This innovative ability is due, in fact, to the higher expenditure

and fencing in and blocking off new developments," declares Wendell Berge.[101] The writer quotes a statement by F. B. Jewett, chief of Bell Laboratories, regarding an agreement between his company and others: "From the standpoint of those responsible for the expenditures incurred by the Laboratories, the inevitable result (of the agreement) would be a narrowing of the field of activity and failure to undertake anything which at the outset is not clearly directed to the field of our current business."

that the big trusts can devote to research. But careful analyses have shown that whereas these monopoly trusts pay out the greater part of the money devoted to research,* they furnish only a minor share of real inventions. Their existence is thus seen to be a twofold obstacle to technological progress,† exactly as Professor Hamberg describes:

"In the modern industrial economy, particularly, the instances are legion in which giant corporations have been major innovators. Careful scrutiny would probably show, however, that in most of these cases the innovations have been non-competitive with existing products. When they have been competitive, innovations by *existing* firms, as should be expected, have followed long periods of market exploitation of the 'old' products. Given this fact (exemplified by the innovational behaviour of the electrical manufacturing, radio and television, railway locomotive and telephone industries, among others), we have the possibility of long lags between the introduction of (competitive) innovations by existing firms who have, for reasons cited above, built up strong monopoly positions. At the same time, the extreme difficulties in assembling the large amounts of capital necessary for modern industrial operations militate strongly against the easy appearance of *new* firms in the role of innovator."[111]

It is true that the tendency to suppression or delayed application of technological progress is counteracted by the need to increase the productivity of labour, rationalisation, production of relative surplus value, in face of the tendency of the average rate of profit to fall. It is precisely under monopoly conditions that this increase in productivity *without any reduction in selling price* becomes a main source of monopoly superprofits. In the copper industry of the U.S.A. only 5 per cent of production was produced in 1914 at a cost of production

* According to a report by the National Research Project in 1940, 13 American companies employed one-third of the personnel engaged in scientific research. At the end of the war the percentage rose to 40 per cent.[109]

† William H. Whyte, Jr. emphasises that the huge expenditure on research now financed by the big American companies (over 1·5 billion dollars a year, in the mid-1950s) is directed towards lines regarded as profitable *for the company itself!* Out of the 600,000 persons engaged in scientific research in the U.S.A., not more than 5,000 [!] are themselves allowed to choose their research subject; out of the total expenditure less than 4 per cent [!] is devoted to creative research which does not offer immediate prospects of profit: "Even when they want to do some small, independent research of their own, top men often have more trouble getting money for it than their colleagues would suspect. Several men who are regarded as great 'operators' —men who can raise hundreds of thousands of dollars for surveys on any conceivable subject—privately aver that the one thing they have never been able to do is get money for what they personally would like to do most of all." It is not surprising that the writer concludes: "If corporations continue to mould scientists the way they are now doing, it is entirely possible that in the long run this huge apparatus may actually slow down the rate of basic discovery it feeds on."[110]

lower than 12 cents a pound; by 1943 this percentage had already risen to 70 per cent. At the same time, production per hour of work had trebled. Yet the price of copper has remained practically unaltered: 13·3 cents a pound in 1914, 11·9 cents in 1943.[112]*

Some defenders of monopoly capitalism, such as David McCord Wright, have interpreted in their own way Schumpeter's view that innovating firms make most profits: the profits of the monopolies are due, they say, to the "revolutionary" initiative shown by the trusts. In reality, the monopoly trusts admit that they leave innovation to the "little men" and are content to exploit the results. Here is a particularly cynical declaration on this point made by Mr. Owen D. Young when he was chairman of General Electric: "Fifteen years is about the average period of probation, and during that time the inventor, the promoter and the investor, who see a great future for the invention, generally lose their shirts . . . That is why the wise capitalist keeps out of exploiting new inventions."[114]

A particularly flagrant case of *suppression* of significant technical innovations is that of the motor car designed by the firm of Tucker, just after the Second World War. This vehicle, by which it was sought to introduce the rear engine into the U.S.A. and to offer a model in which the engine could be removed *en bloc* for any repairs or replacements, was suppressed by the big trusts in order to protect their market.[115]

3. *The deterioration in the quality of goods.* We have just seen how an electricity trust deliberately lowers the quality of electric lamps, so as to ensure itself a large and more stable market. This is not an isolated instance. Thus, the appearance of big bread trusts led in the U.S.A. to a serious deterioration in the quality of this basic food product. A Government campaign to "enrich" bread by adding certain nutritive products was exploited by these trusts in order to stimulate their sales, without the needs of consumers as regards products traditionally present in bread being properly satisfied. Experiments with an "irradiated" yeast led to the same unsatisfactory results.[116] The American inquiry into the employment of drugs and chemicals in the food industry listed a number of examples of abuses committed by the chemical industry monopolies.

By a strange irony of history, the defenders of monopoly capitalism define as the fundamental characteristic of this system "free consumer choice" as between products. But it is precisely the era of monopoly

* Professor Galbraith[113] suggested that some trusts (such as the U.S. steel trusts) wait before raising their monopoly prices until a wage increase has been obtained by the trade unions, so as to blame the workers. This is only one argument among many others which refute the well-known myth of the "spiral of wages and prices" which is said to make "useless" the wage increases won by the trade unions.

that marks the end of this free choice: "Indeed, it is common knowledge that with such market imperfections competition does not guarantee that the consumer will always get his money's worth. Both anonymous manufacturers with no reputation at stake and giant combines with only ineffective competition to worry about may exploit the ignorance of consumers. Even big department stores and chain stores competing vigorously for patronage by offering recognisable bargains, or loss leaders, may at the same time exploit ignorance."[117]

Monopolies and "oligopolies"

Many academic economists refuse to accept the use of the category "monopolies" in analysing the changed structure of capitalism since the last quarter of the nineteenth century. They consider that this term cannot be used appropriately except where it is taken in its literal meaning—the absolute power of a single firm. For this reason they prefer to use the term "oligopoly" to describe the situation in a sector of industry which is dominated by a small number of firms.

Semantic discussions are idle, of course; but the alleged terminological precision of academic economic science actually conceals *inability to grasp problems of structure.* The appearance of "oligopolies" does not mean a mere change in the situation *in degree* ("a little more imperfection" in competition). It means the coming of a new era, marked by a radical echange in the behaviour of the heads of the principal firms, which brings in its train changes no less radical in internal and external policy.

An honest study of the behaviour of the big monopoly firms shows that it is *qualitatively different* from that of firms which operate under conditions of free competition: "The merging of business competitors need not go so far as complete unification, 100 per cent monopoly, to reduce competitive pressures—and yield extra profits. Power to restrict supply and raise prices need not be absolute to be worth while. It helps to ensure profits if the number of sellers is so small that each will recognise the benefits of following a live-and-let-live policy."[118]

A. A. Berle Jr., an eloquent defender of the system of "private enterprise" declares frankly in his turn: "It is simply inaccurate to present the American corporate system of 1954 as a system in which competition of great units (which does exist) produces the same results as those which used to flow from competition among thousands of small producers (which in great areas of American economics in the main does not exist)."[119]

Or, more precisely still: "The impact of many corporations—for example, General Motors or the great oil companies—goes beyond the confines of their actual ownership. For example, at a rough estimate, some three billions of dollars are invested in garages and facilities owned by so-called 'small' businessmen who hold agency contracts from the principle automobile manufacturers. The owners are small, independent businessmen usually trading as 'corporations' but certainly not giants. They are, nominally, independent. But their policies, operations, and, in large measure, their prices, are determined by the motor company whose cars they sell. The same is true of the 'small businessman' who 'owns' a gasoline-filling station. The ability of the large corporation to make decisions and direct operations overflows the area of its ownership."[120]

Monopoly capitalism and the contradictions of capitalism

Monopoly capitalism develops to the utmost all the developmental tendencies of capitalism, and thereby all the contradictions inherent in this system. The basic contradiction, between the effective socialisation of production and private appropriation, reaches its extreme form: the effective socialisation of production is accomplished on the world scale, and leads to effective control by a few monopolies over whole peoples. It is combined with the contradiction between the *effective internationalisation* of production, through world division of labour carried to the extreme, and the retention of national frontiers and so the exacerbation of international competition. This contradiction finds its "solution", its periodical explosion, in imperialist war.

Monopoly capitalism develops to the extreme the contradiction inherent in the anarchy of capitalist production. Many socialist theoreticians greeted at the beginning of the century, and again later during the 1920s, the establishment of international cartels as the coming of a new phase of capitalism, that of "organised" capitalism. They were convinced that capitalism had thus actually overcome competition and economic nationalism, and that it constituted a period of transition to socialism through world-wide "planning" in the sphere of production.

In the *Berliner Tageblatt* of 1st October, 1926 Rudolf Hilferding hailed the formation of the European steel cartel as a "transcending" by the capitalists of Franco-German competition.[121]

Experience, however, has already proved that this was an illusion. The cartels, trusts and monopolies do not suppress capitalist competition; they merely reproduce it on a higher scale and in a more acute form:

(*a*) Competition between two trusts which are "neighbours" or occupy the same area of production. This competition may be waged by means of alliances, threats, reprisals or lawsuits, patent disputes, etc., so as to change the distribution of spheres of influence or the sharing of the market. Thus, the ALCOA aluminium trust allied itself temporarily with the German I.G. Farben in order to strike down the monopoly which its competitor Dow Chemicals possessed in the sphere of magnesium. In the end they made an agreement with Dow.[122] Sometimes this competition between trusts operating in the same field may "degenerate" into price competition. Thus, in 1954 a "detergent war" broke out in Britain between Unilever and Procter and Gamble (Thomas Hedley), a war waged by means of price-cuts.[123]

(*b*) Competition between different vertical trusts, carried on in the form of regular economic wars (coal trusts against electric power trusts or oil trusts; oil trusts against motor car trusts; the cement cartel against the shipping trusts, etc.)*

(*c*) Intensified competition between the non-monopoly and monopoly sectors.

(*d*) Competition within the non-monopoly sectors, all the more violent because the superprofits of the monopolies lower the rate of profit in these sectors.

There is no better way of describing the competition between monopolies than as a permanent state of war interrupted by frequent truces. But these wars are carried on only seldom by way of price-cuts: "The endless manœuvring for leadership position between Ford and General Motors is an almost classic instance of competition within oligopoly. Somewhat the same situation prevails in the electronics field where General Electric and Westinghouse are continuously in tacit agreement and continously at war."[125]

Far from bringing about a greater stablisation of capitalism, the international cartels and trusts have reduced the flexibility of adaptation of the world economy, and caused sharper and deeper fluctuations, by imposing rigid prices for their profits without regard to the economic conjuncture.

The idea that "perfect" monopolies or cartels, at least, might be able to give greater stability to world economy has likewise proved illusory. The establishment of such "perfect" monopolies still remains inevitably limited in time, because the high superprofits they make end by attracting fresh competitive capital into the given sectors. This is what happened with aluminium in the U.S.A. during the Second World War.†

* A typical example: General Motors formerly used 75 lb. of aluminium to make a car, and even 240 lb. to make a Buick. When the ALCOA aluminium trust kept its prices too high, General Motors substituted other metals for aluminium, reducing consumption to 8 lb. per car on the eve of the Second World War. This cut down the potential aluminium consumption in the U.S.A. by nearly 100,000 tons a year![124]

† Nevertheless, even after the appearance of new and powerful competitors, ALCOA still controls nearly 80 per cent of world capitalist production, jointly with its subsidiaries and its ally ALTED. The International Nickel trust has for years controlled nearly 90 per cent of world capitalist production of nickel. But these are exceptions. The Clymax Molybdenum Company has a

"Stable" cartels are also short-lived, owing to the working of the law of *uneven development*. The cartels fix quotas for production, export, and share in the world market, in accordance with the productive capacity and productivity of the constituent firms at the moment when the cartel is formed. But these relations do not remain stable. It is enough for technical improvements, inventions, an expansion of capacity, to bring about a change in the balance of forces between these firms for the one that feels strongest in competitive power to break the agreement with a view to getting a bigger share in the division of the market.

This is what happened in the copper industry, where a cartel succeeded in raising the price in the midst of the world crisis—from 13 cents in 1927 to 18 cents in 1930. Then the cheaper copper from the mines newly opened in Rhodesia suddenly flooded the market, lowering the price to 5 cents by the end of 1932, until a new cartel was formed in May 1935 which achieved a price rise of 150 per cent. Monopoly cartels and trusts sign agreements only as so many truces in the course of an armed conflict. At the very moment when the truce is concluded, each participant is thinking only of reopening hostilities when conditions are most advantageous for him.

Monopoly capitalism does not only intensify all the classic contradictions of capitalism, however, it also adds some new ones. To the fundamental class contradiction between the proletariat and the bourgeoisie there is added, in the age of monopoly, the contradiction between the colonial and semi-colonial peoples, on the one hand, whose poverty and economic backwardness constitute the main source of superprofits for the monopolies, and the big metropolitan bourgeoisies, on the other.*

The contradiction between the effective socialisation of production and private appropriation by the bourgeoisie becomes all the more hateful because the plainly *parasitic* nature of capitalism is more and more intensified. Monopoly capitalism means the transformation of part of the bourgeois class into *rentiers* and "coupon-clippers" (large share-holders, holders of state bonds, foreign securities, etc.). The separation of the bourgeoisie into an industrial bourgeoisie and a *rentier* bourgeoisie is carried further into a separation between the actual technical managers of the production and distribution of goods and the chief suppliers of funds and financial "organisers". The function of ownership and the function of management are increasingly separated, and the monopoly bourgeoisie thus represents the purest type of bourgeoisie, *that for which the appropriation of surplus value*

complete monopoly of molybdenum production in the U.S.A. and controls 84 per cent of world productive capacity. Between 1934 and 1939 the annual rate of net profit for this trust was 93 per cent.[126]

* See Chapter 13.

is no longer masked in any way by payment for a managerial task in the production process, but plainly appears as the exclusive result of private ownership of the means of production.

Capitalism as a mode of production finds its historical justification in the prodigious development of the productive forces which it sets in motion. This development is interrupted only temporarily by periodic crises, through which production adapts itself to need and to possibilities of consumption which are socially determined, that is, limited.

Monopoly capitalism, capitalism of the age of artificial restriction of production, share-out of markets, division of the whole world conquered by capital, considerably limits the development of the forces of production. Tendencies to waste get the upper hand of tendencies to save. The capitalist ceases to be revolutionary in the field of expanding production, and becomes conservative. Crises becomes longer and more frequent, from the beginning of the twentieth century. Monopoly capitalism becomes more and more a fetter on the development of the productive forces.* Henceforward its parasitic character explodes in the world's face in a new epoch of history, filled with convulsions: the age of capitalist decline, the age of war, revolutions and counter-revolutions.

* Which does not mean that world production, or even that of the leading countries, sinks into stagnation; but it falls ever further short of the possibilities offered by modern technique.

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CHAPTER THIRTEEN

IMPERIALISM

Capitalism and inequality among nations

BORN in Western Europe, industrial capitalism spread in the course of a century over the entire world. But this expansion assumed a very special form: all the countries in the world became outlets, sources of raw material and, to a smaller extent, fields of investment for capital. But the *capitalist mode of production,* and in particular the large capitalist factory, touched only the periphery of the economic life of three continents. This is, briefly, the cause of the phenomenon which is today known, shamefacedly, by the euphemism of "under-development".

While capitalism has spread all over the world, the greater part of the world has experienced only its disintegrating effects, without benefiting from its creative side. Indeed, the unlimited industrial advance of the Western world has been possible only *at the expense* of the so-called under-developed world, which has been doomed to stagnation and regression. Three-quarters of a century after the start of the imperialist era, the United Nations have been compelled to recognise that, despite all the plans for aid to the under-developed countries, *the rich countries are becoming richer whereas the poor ones are becoming poorer.*[1]

The present division of the world between industrialised nations and under-developed nations is not the result of an inescapable whim of nature, of an unequal distribution of natural resources, or of a comparatively large and small density of population as between this country and that. It is true that capitalist industry was established in the first place near substantial deposits of coal. But, while there is plenty of coal in England, Belgium, the Ruhr, the North and East of France—areas which were rapidly industrialised at the beginning of the nineteenth century—immense quantities of coal are also to be found, in easily workable conditions, in the Donbas, the Urals, Manchuria, India and South Africa, where industrialisation only began a century later, and in some cases has still not begun.*

Though the discovery of oilfields changed the economic history of

* The two countries with the largest shares of the world's iron ore resources are both under-developed countries: India with 21 per cent of the total, Brazil with 15 per cent.

the United States, even bigger oilfields existed at the same time in the Middle East, the Sahara and Libya, which did not begin to be developed until much later and then on a relatively modest scale.

In order to refute the view that the degree of economic development or industrialisation depends on the density of population, it is enough to recall that areas so highly industrialised as Germany, the Netherlands or Belgium have today, and had already at the beginning of the nineteenth century, a density of population much greater than is found in countries such as Spain, Portugal, Turkey or Brazil. India and Japan were both under-developed countries in 1850. The country which became industrialised the sooner was also the one with the higher density of population.

In reality, the division of the world into "rich" and "poor" nations can be explained only by historical and social reasons, and to a large extent *by the history of capitalism itself.*

True, as we have shown above,* the prehistory of capitalism, the extent of accumulation of commercial capital, the degree of penetration of money economy into agriculture, the totality of socio-economic conditions favourable or unfavourable for the application of scientific techniques to production, determined to a large extent the birth of industrial capitalism in Western Europe, and held back the same process in India, China, Japan, Java and other essentially agricultural civilisations.

Nevertheless, this backwardness was not very marked in the middle of the eighteenth century, and above all was not insuperable. If it had become so a century later, the catastrophic aspect of under-development was due first and foremost to the particular way, that is, a violent and plundering way, in which contact was made between these two worlds.†

* See Chapter 4, section: "Special features of capitalist development in Western Europe."

† Here is a striking opinion, from Helen B. Lamb, of the Massachusetts Institute of Technology: "By the eighteenth century India had attained a high degree of development in pre-industrial terms. Agriculture was sufficiently developed to support a relatively large number of non-agricultural workers; there were highly skilled craftsmen in iron, steel, textiles, shipbuilding and metalwork. India produced manufactured goods not only for home consumption but for export. India's economic wealth had for centuries been controlled by merchant bankers and princes who siphoned off the surplus of production over consumption in the form of idle hoards of gold and silver bullion; hence this wealth was sufficiently concentrated to represent a potential source of investment funds. India's resources of good quality coal and iron were located in convenient proximity to each other . . .

"Why did not this combination of apparently propitious circumstances produce a type of economic development capable of generating real momentum? Despite the many complexities and anomalies of the situation, In the decisive formative period of the capitalist mode of production, extending from the sixteenth to the end of the eighteenth century, the creation of the world market was of crucial importance. Its main results for the primitive accumulation of capital in Western Europe have been examined above. But all through this period of the birth of capitalism the two forms of surplus-value appeared at each step. On the one hand, it was the outcome of the surplus labour of the wage workers hired by the capitalists; on the other, it was the outcome of values stolen, plundered, seized by tricks, pressure or violence from the overseas peoples with whom the western world had made contact. From the conquest and pillage of Mexico and Peru by the Spaniards to the sacking of Indonesia by the Portuguese and the Dutch and the ferocious exploitation of India by the British, the history of the sixteenth and eighteenth centuries is an unbroken chain of deeds of brigandage which were so many *acts of international concentration of values and capital in Western Europe*, the enrichment of which was paid for, in the literal sense of the word, by the impoverishment of the plundered areas.

It can be stated unhesitatingly that the contribution made by this stolen capital was decisive for the accumulation of the commercial capital and money capital which, between 1500 and 1750, created the conditions which proved propitious for the industrial revolution. It is difficult to calculate the total amount involved, but if one takes into account only the most substantial contributions these add up to a staggering sum.

Hamilton estimates at over 500 million gold pesos the total amount of gold and silver exported from Latin America between 1503 and 1660.[3] According to Colenbrander,[4] the total value of the dividends, officials' remittances and cargoes of spices taken out of Indonesia by the Dutch East India Company amounted to 600 million gold florins for the period 1650–1780. On the basis of the calculations made by Father Rinchon, we know that profits from the slave trade amounted in eighteenth-century France to nearly half a billion *livres tournois* (without including the profit arising from the work done by the slaves, which came to several billion *livres*).[5] The profits obtained from the labour of the negroes in the British West Indies amounted to £200 to £300 million.[6]

Finally, even if estimates differ markedly on this point, it is not an exaggeration (see the work of a high colonial official, a firm defender of the Empire, Sir Percival Griffiths: *The British Impact on India*)[7] to estimate at £100 to £150 million the outcome of the British plundering of India between 1750 and 1800.

basically the answer is simple. The colonial relationship subordinated India to British political and economic interests; it stimulated Indian economic development in some ways and inhibited it in others."[2]

The total amount comes to over a billion pounds sterling, or more than the capital of all the industrial enterprises operated by steam which existed in Europe around 1800! *

We do not allege that all this wealth went directly to nourishing European industry. A large share of it did nourish this industry indirectly, through the luxury expenditure of the rich, whether new or old, through State expenditure financed by public loans and paid for out of colonial revenues. But the historical connections between this influx of capital into Europe and the conditions favouring the industrial revolution are undeniably direct.

Father Rinchon remarks regarding the enrichment of France in the eighteenth century: "The growth in colonial establishments, the progress in trade and transport, and rise in power, wealth and reputation of the metropolitan country, all these resulted from the slave trade. France's external trade in the eighteenth century enjoyed a favourable balance of several million *livres*, and this was due to the export of colonial products which were the fruit of slave labour."[9]

G. Martin[10] observes, even more precisely: "Every port to which the slave-ships returned saw the rise of manufactures in the eighteenth century—refineries, cottons, dyeworks, sweet-making—in increasing numbers which testified to the advance of business and industry. In Nantes, for instance, there were founded in the course of the eighteenth century 15 refineries, 5 cotton manufacturers . . . , two big dyeworks, two sweet-making establishments . . . Industries created, private fortunes increased, the public wealth of the cities transformed, the flowering of a new class—the big merchants eager to play a part in public affairs—these are the essential features with which the slave trade marked the evolution of France in the eighteenth century."

And Brooks Adams defines the direct relationship between the plundering of India by the East India Company, after the battle of Plassey, and the beginning of the industrial revolution: [11] "Very soon after Plassey the Bengal plunder began to arrive in London, and the effect appears to have been instantaneous, for all authorities agree that the 'industrial revolution', the event which has divided the nineteenth century from all antecedent time, began with the year 1760 (the battle of Plassey occurred in 1757) . . . At once, in 1759, the bank (of England) issued £10 and £15 notes (for the first time)."

The writer recalls that Burke estimated at £40 million the British extortions in India between 1757 and 1780. H. V. Wiseman estimates that between 1770 and 1780 the labour of slaves in the West Indies brought another £40 million to Britain.[12] Around 1770 the value added annually (wages plus profits) in the whole of British industry was put

* About 1770 the British national income was only £125 million. The whole of Britain's modern metallurgical industry (including steel) about 1790 had cost only an investment of £650,000.[8]

at only £24·5 million in the well-known writings of Arthur Young (*Political Arithmetic*, etc.). It can be concluded without exaggeration that for the period 1760–1780 the profits from India and the West Indies alone *more than doubled* the accumulation of money available for rising industry.

Thus, even before industrial capitalism had developed in England, the exploitation, whether casual or systematic, of overseas countries was one of the chief sources of Europe's wealth. And the chief victims of primitive accumulation were, more than the yeomen driven from their farms by sheepraising or the journeymen of the crafts left without work in the towns and forced to work for a miserable pittance in poor-relief workshops, the *indios* condemned to *mita* (forced labour), the Bantu sold as slaves, the wretched inhabitants of the Hongy Islands, exterminated by the expeditions of the Dutch East India Company,* the people of the decadent Mogul Empire, pitilessly plundered by the agents of the British East India Company. It was this systematic plundering of four continents, during the commercial expansion of the sixteenth to eighteenth centuries, that created the conditions for the decisive lead acquired by Europe from the industrial revolution onward.

The world market and industrial capitalism

With the industrial revolution and the *production* of a steadily growing amount of surplus value by the proletariat of Western Europe, the direct plundering of overseas countries became only a secondary source of enrichment for the bourgeois classes of the West. Without disappearing completely, it no longer played more than a supplementary role in Europe's accumulation of capital. At most it made possible the quick entry into the bourgeois class of adventurers who rapidly became rich at the expense of the "lower races".

But the relations between the West and the already under-developed countries did not thereby become humane and equal. Plundering was followed by trade; but the latter's effects were often to be more damaging even than those of wars of conquest†

The link between the two forms of exploitation, the violent form by way of direct seizure and the "peaceful" form by way of exchange on an unequal footing, is particularly clear in the case of India. In the provinces of Bengal, Bihar and Orissa, the East India Company had acquired exemption from all transit tolls or export dues for its own international trade. But its employees soon began to apply this exemp-

* See Chapter 4, section, "The commercial revolution."

† In *Bankers and Pashas*, David S. Landes draws a dreadful picture of the plundering of the Egyptian treasury under Mehemet Ali, Said and Ismail (1830–1860). The "scum of Mediterranean society" gathered in Alexandria to plunder retail while international finance plundered wholesale.[18]

tion, illegally, to internal trade, within these provinces, where the Indian merchants were subjected to heavy taxation: "The company's agents, whose goods were transported quite free of duty, whereas other merchants' goods were heavily burdened, quickly concentrated in their hands the whole of the country's trade, thereby drying up one of the sources of public revenue."[14]

These same Company employees had, moreover, a way of their own of carrying on trade, as emerges from the complaint by one of the Nawab of Bengal's administrators, quoted by H. Verelst in *A View of the Rise of English Government in Bengal* (1772): "They forcibly seize the belongings and goods of the peasants, traders, and others, at a quarter of their value, and by means of violence and oppression they make them pay five rupees for goods that are worth no more than one."*

But the trade of this transitional period was essentially an *import trade*, into Europe, of rare Eastern products (precious stones, spices, delicate fabrics, etc.), and therefore a luxury trade. With the industrial revolution East-West trade changed in kind. Western Europe now *exported* manufactured goods instead of exporting precious metals as means of payment. The East was now drained of its precious resources, since its balance of payment with the West was chronically on the wrong side.

Young capitalist industry—above all the British textile industry—was not immediately able to acquire dominance through the cheapness of its products. Though the beginning of the industrial revolution is to be placed around 1760, another half century passed during which India and China continued to be the world's chief providers of textile products. As late at 1815 India was exporting £1·3 million worth of cotton goods to Britain, while Indian imports of British cottons amounted to only £26,000. China exported in 1819 nearly 3·5 million pieces of cotton goods,[16] while its imports were infinitesimal. Like "calico", "nankeen" was known and in demand throughout the world.

British industry succeeded in dominating the world market only by carrying on an extreme protectionist policy.

In 1813 Indian cotton and silk goods were 50 to 60 per cent cheaper than British; therefore they were subjected for a long period to an import duty of 70 to 80 per cent, after all importation of Indian cottons had several times been prohibited altogether, notably in 1700 and 1720. At the same time as Britain was following this extreme protectionist policy, it *imposed*, through the East India Company, the free-trade policy upon India (it did the same to China later, through the

* "Our business is to make money, as much and as fast as we can; and for this end, all modes or means are good which the law permits," wrote a British trader in Shanghai to his consul.[15]

Opium Wars). At a time when Indian silk goods were paying 20 per cent import duty in Britain, British silk goods were paying only 3·5 per cent in India! Only about 1830, when the superiority of large-scale industry was firmly established, were the British industrialists able to allow themselves the luxury of propagating free trade on the world scale, beginning with Britain itself.

Thus, the conquest of the world market by capitalist industry did not take place by economic means alone. Political and military pressure and force played an important, if not decisive, role. It was the conditions of political inequality, the unequal treaties imposed by Britain on India and China, that enabled Britain to conquer the world market and obtain a monopoly of productivity. Once this conquest had been achieved, the proclamation of the universal dogma of free trade, now imposed by force on yesterday's victims, was to become the essential weapon wielded by Britain (and to some degree also by France, Belgium, the Netherlands, etc.) to *destroy* existing industry in the Asian countries and delay their industrialisation for half a century.*

Between 1815 and 1850 British cotton goods conquered India: that country absorbed in 1850 25 per cent of all Lancashire's exports. But during the same period the Indian craftsman defeated in this competitive struggle found no place for himself in industry. The impoverishment of the country, drained of its reserves of money capital, together with the superiority now achieved by European industry, did not permit an unprotected Indian industry to enter into competition. The free trade relationship between the metropolitan country and the dependency frustrated the modest moves made in this direction.

Age-old industrial centres died. Dacca was partly overgrown with jungle. The craftsmen, reduced to idleness, spilt over into agriculture. The vicious circle closed when, after 1833, Britain decided to develop on a large scale in India the production of agricultural raw materials, especially cotton plantations. A people who formerly had exported cotton goods to all parts of the world now exported only raw cotton, to be worked up in Britain and sent back to India as textile goods!

It is thus not ethnological, demographic, geographical or religious (ideological) conditions that account for the economic under-development of India. This results from the fact that capitalism entered this country under conditions of imperialist domination, which transformed India from a producer of manufactured goods into a producer of agricultural raw materials.

* In Egypt the same results were secured by the obligatory reduction of Mehemet Ali's forces in 1841, and by the Anglo-Turkish trade agreement of 1838.[17]

From the export of goods to the export of capital

As capitalist groupings replaced free competition, a *surplus of capital* manifested itself in the industrial countries of Europe—the first phenomenon of the kind since the beginning of the industrial revolution. The capitalist syndicates, trusts and monopolies implied, as a matter of fact, a certain restriction on investment. But the capitalists could not consume unproductively the greater part of their surplus value; only capitalisation of this surplus value would constitute a real gain. They therefore sought fields for investment in other sectors: the age of monopoly is also the age of companies which spread their interests over many sectors of activity. The more this tendency became general, the more fields for capital investment shrank in Britain and all over Western Europe. Alfred Marshall and Wicksell noted this, and explained the great depression of 1873–1896 by this shrinkage.[18]

It was at that moment, and under the pressure of this more or less chronic surplus of capital that the capitalists sought an outlet in the non-industrialised countries, either the "empty" countries of the British Empire (Canada, South Africa, Australia, New Zealand), or the colonial countries in the strict sense (especially in Africa and Asia), or the semi-colonial countries which, while formally independent, became transformed into economic dependencies of the imperialist countries (notably the countries of Latin America and those of Eastern Europe).

"The practice of foreign investment, the banking side of which was concentrated in a relatively few hands in London, much of it among men who specialised in the business and did not concern themselves with home investment, had become established by 1870. Well over half of the loans at that time were in the form of European and United States government bonds, although railways and other enterprises took a large share. The 1870s brought disappointment to the investor and he began to turn elsewhere. North and South America and the countries of the Empire, particularly Australia and South Africa, were heavy borrowers between 1880 and 1900, the share of the Empire distinctly rising. After the beginning of the present century, Canada replaced Australia as the leading Empire borrower . . . The total of foreign investments . . . had arisen from about £800 million in 1871 to about £3,500 million in 1913."[19]

This tendency towards the export of capital was strongly stimulated by an extraordinary *revolution in the means of international communication*, which occurred at the same period. "The economic history of the period 1860–1878 is characterised above all by an unprecedented spring forward in the development of all kinds of communications," wrote Henri Hauser.[20] This powerful synchronisation of steam navigation (it was between 1875 and 1885 that steamships began to exceed sailing ships in tonnage), telegraphy, and improved railways, in

America, India, China and Africa, really unified the world market for the first time.

Whereas previously only the great financial and commercial centres, the ports and entrepots, depended on each other, now the bulk of production, even agricultural production, in even the most backward countries was drawn into the vortex of trade and world-wide speculation. Having the power to keep check from afar on the state of business and the size of the harvest, or to move in a few days from one point on the globe to another, in order, when necessary, to take charge of their staffs appointed to direct the workers, or to bring pressure to bear on a recalcitrant ruler, the capitalists were now able to risk investing their capital in the most distant parts of the world. Capital became international, and the world was made one quite literally.

The export of capital thus corresponds to a fundamental law of the development of capital: the increase in its organic composition, the tendency of the average rate of profit to fall, resisted on the one hand, by alliances between capitalists in the metropolitan countries, and compensated, on the other, by the investing in colonial countries of the surplus capital thus released, since in those countries the average organic composition of capital was lower and, above all, the rate of surplus value was much higher.

But the expansion in the export of capital did not mean at all that the export of goods became of secondary importance and no longer played its part as the safety value of capitalist production. On the contrary: the export of capital to the backward countries went hand in hand with the export of goods, and the former helped the latter.

Jules Ferry, the great promoter of Fench colonial expansion in this period, states this fact plainly in his book *Le Tonkin et la mère-patrie* (Tongking and the Mother Country). "Europe can be regarded as a business firm which, over a certain number of years, has seen its turnover declining. Europe's consumption of goods is saturated; we must find ourselves new strata of consumers in other parts of the world if contemporary society is not to go bankrupt and prepare, for the dawn of the twentieth century, a social liquidation through cataclysms the consequences of which would be beyond calculation."

And, in another place, more cynically: "The nations of Europe have long since realised that the conquest of China, of its 400 millions of consumers, must be undertaken exclusively by and for the producers of Europe."[21]

The exports of capital carried out by way of investment loans to governments, municipalities or private firms in foreign countries usually stipulate, or imply, that the recipients of these loans are to buy the capital goods they need in the creditor countries. In such cases the "export" of capital is often merely a manner of speaking—in fact, the loan obtained in London is spent in Birmingham. It will be understood that, this being what happened, the export of capital frequently played, between 1875 and 1913 the same role of support for business prosperity or of economic stimulant as has been played since 1929 by public expenditure:

"In the short period . . . an increase in activity abroad, generally associated with an increase in foreign investment by Britain, pulled the country out of pre-1914 slumps by improving the prospects of the export industries. If the investment was on the Continent, the textile industries gained; if in America or the Colonies, the metal industries expanded."[22]

Even if the obligation to obtain supplies in the creditor countries is not formally laid down, the establishment of close financial ties between borrower and lender favours the development of trade in goods between the two countries.

The export of capital carried out by the founding of branches or sister-companies in foreign lands by large metropolitan countries similarly involves, as a rule, the reinforcement of commercial exchanges between the creditor and debtor countries, since the companies of metropolitan origin generally import from the home country both their capital goods and also the consumer goods needed by their managerial staffs, by the colonial administrators, and so on.

Soon, France, Germany, the Netherlands, Belgium, Switzerland, Sweden, Portugal, and later the U.S.A. and Japan, followed Britain's lead in the export of capital. The following table gives a general idea of the evolution of overseas private investment by different countries, though the figures are only rough approximations.

(In billions of gold francs of 1913): £1 = 5 dollars = 20 RM = 25 francs.

	Britain	*France*	*Germany*	*U.S.A.*	*Netherlands*	*Belgium*	*Switzerland*	*Japan*
1862	3·6	—	—	—	—	—	—	—
1870	20	10 (1869)	—	—	—	—	—	—
1885	30	15 (1880)	6·5	—	± 4·5 (1880)			—
1902	62	30	12·5	3·0 (1900)	—	—	—	—
1914	87	40	30	15	10	7	7	1
1930	90	20	5–6	75	18	4	9	4·5
1938	85	15	—	48	22	7	6	9
1948	40	3	—	69	10	4	8	—
1957	46	6	2	120	11	6	12·5	—
1960	60	?	4	150	12	8	14	1

Colonialism

Capitalist expansion into the most backward parts of the world thus made possible the realisation of the basic tendency of the capitalist mode of production: the constant enlarging of its bases, the condition indispensable both for realising surplus value and for capitalising it. But this expansion, itself the result of considerable changes in the conditions under which capital was produced and invested, brought in its train no less considerable changes in the economic and international policies of the bourgeois states of the West.

The bourgeoisie of the free competition period had the "Manchester" outlook, strongly for free trade and against colonialism. All increase in public expenditure was regarded as waste by the industrial bourgeoisie, still greedy for new capital in order to be able to expand the framework of production. Exports no longer needed to be protected, as in the days of mercantilism, but cut their own path triumphantly across the world, thanks to the invincible weapon of ever lower costs of production and selling prices. The monopoly of productivity acquired by Britain, and to a smaller degree by all the industrial countries of Western Europe, was more powerful than any state monopoly. Periodic demonstrations such as the Opium War with China, or the sending of a few gunboats up a main river, were enough to break down the barrier, should the free circulation of goods find itself hindered anywhere in the world.*

Condliffe observes: "As the political influence of the merchants and manufacturers grew, so did their resistance to ambitious foreign policies, to military and naval expenditures, and to colonial expansion. As early as 1793, Bentham had written his tract, *Emancipate Your Colonies*. The liberal free traders accepted this attitude and became known as 'Little Englanders'."[23]

An historian shows that, a few decades later, the Conservatives, including Disraeli, shared this view:

"Coming on top of free trade, which was a declaration of independence by the mother country against the colonies, the concession of responsible government was inspired by the belief that the colonies were of little if any use to the mother country and sooner or later were bound to become independent nations . . . Liberals and Conservatives alike looked forward to the dissolution of the empire with a complacency tinged by an impatience that tended to grow with the years. 'These wretched colonies will all be independent in a few years, and are a millstone round our necks.' So said Disraeli in 1852, and he had a genius for catching the spirit of the age . . . Therefore it is not surprising that during the sixties the British government proceeded to withdraw imperial troops from the colonies. Liberals began the move in 1862. Conservatives continued it, and Liberals pushed it to a conclusion in 1871, the year in which Bismarck created the German Empire."[24]

But this outlook quickly changed with the coming of the age of

* However, economists in the countries which were at that time industrially backward, such as the German List and the Indian Ranive, did not accept the free trade doctrine. The industrialisation of their countries demanded, indeed, a policy of protection.

monopoly. The monopoly bourgeoisie was no longer greedy for fresh capital, but for super-profits, and found at its disposal an excess of capital seeking new fields for investment. It no longer possessed a monopoly of productivity guaranteeing the "peaceful" conquest of world markets; it found itself increasingly confronted with foreign competitors who produced under conditions of productivity which were the same or even better. The export of capital to distant countries implies a different attitude to colonialism to that implicit in the export of goods. The risk involved is no longer strictly limited in time; it is a matter no longer of ensuring merely one single payment, but of ensuring an *uninterrupted* flow of dividend, interest and depreciation payments.

Loans to foreign countries are tied up in mining, industrial or harbour installations, or in plantations which have to be protected against the "ignorant", "lazy", "fanatical" or "xenophobic" mass of "natives". The age of monopoly capitalism thus rapidly becomes the age of the revival of colonialism. Grabbing foreign lands and closing them to foreign competition as markets for finished products, sources of raw material and cheap labour, or fields for capital investment, that is, as sources of super-profits: this is what becomes the central theme of the foreign policy of the capitalist countries from the 1880s onward:

"In trying to prove the material advantage of the (colonial) connection, they (the imperialists) stressed the value of the colonies chiefly as a market for British emigration . . . Calculations of the balance between profit and loss were also affected by the fact that Britain was ceasing to be the only important industrial country and was beginning to feel the pressure of foreign competition. This suggested that colonial markets might, after all, become indispensable for the welfare of the parent state."[25]

Free trade and the doctrine of the free circulation of goods and capital were thus routed at the very moment when this circulation had reached its highest point, through a universal system of convertible currencies. Monopoly capitalism has to protect its own internal markets from invasion by foreign goods; the basis of monopoly super-profits must be defended. It has at the same time to safeguard the monopoly of its colonial markets from invasion by foreign capital and foreign goods, for this is the basis of its colonial super-profits. The policy of free trade was first called in question in relation to agricultural products, when competition from cheap agricultural products from overseas began to be felt. Gradually, protectionism spread to industry as well.

The age of imperialist advance (1875–1914) was marked by the existence of a large number of new fields for capital investment, and then later by the increasingly complete partition of these fields among the imperialist powers. This at first made possible a comparatively peaceful expansion of European capitalism (peaceful, that is, as regards relations between European powers, though violent as regards relations between imperialist and colonised countries).

Britain secured the lion's share in this division of the world, thanks to its industrial and financial superiority, which had not yet been undermined. It dominated India, Burma, Malaya, and a series of stepping stones along the route to India; it occupied half of Africa, from Port Said to the Cape; it extended its rule over half the islands in the Pacific, while retaining its old colonies in North and South America and in Australia and New Zealand.

France carved itself out an empire in North Africa and in West and Equatorial Africa, it seized Madagascar, Vietnam and some of the Pacific islands. Belgium grabbed the huge empire of the Congo. The Netherlands consolidated its rule over Indonesia and the old Dutch colonies in the West Indies. Germany got a few titbits in West and East Africa, in Asia and Oceania. Russia spread its power eastward and southward in Siberia. Japan expanded beyond its archipelago, seized islands such as Formosa and positions on the continent of Asia (Port Arthur, Korea). The U.S.A. tore from the Spaniards bits and pieces of their old empire: Cuba, Puerto-Rico, Hawaii. Italy obtained some colonies in Africa.

From the beginning of the twentieth century, the entire world, apart from Antarctica, can be regarded as having been divided up, even though a few "independent" countries remained in Africa and Asia (Liberia, Abyssinia, Turkey, Afghanistan, Persia and China). All these countries were in fact divided into spheres of influence of the various great powers. Accordingly, it was no longer the sharing-out of "free" zones that was the object of inter-imperialist conflicts, but the redistribution of empires and spheres of influence. These conflicts quickly became sharper: an Anglo-French clash over power in the Sudan and on the Nile; a clash between France and Germany in Equatorial Africa and Morocco; between Britain and Russia in Persia and Afghanistan; a Russo-Japanese conflict over the partition of Manchuria, which led to the war of 1904–05; an Anglo-German struggle over Turkey and the Arab countries of the Middle East; a struggle between Russia and Austria-Hungary over the Balkans. The two last-mentioned conflicts eventually set fire to the gunpowder in 1914. Imperialism, the policy of international economic expansion of monopoly capitalism, leads to imperialist wars.

Colonial super-profits

The export of capital and the colonialism associated with it are monopoly capital's reaction to the fall in the average rate of profit in highly industrialised metropolitan countries, and to the reduction in profitable fields for investment of capital in these countries. In this sense they are only the expression at a particular moment in history of a general characteristic of the capitalist mode of production, of the way it grows and spreads: *capital moves towards spheres in which the rate of profit expected is higher than the average.* Colonial super-profits are thus to be defined as profits higher than the average profits obtained by capital in the metropolitan country.

Here is a comparison covering recent years of the rates of profit (ratio between net profits and book value, i.e. capital plus reserves) of the Belgian companies operating in Belgium and those operating in the Congo and in Ruanda-Urundi: [26]

	1951	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*
	%	%	%	%	%	%	%
Belgian companies	8·6	9·4	7·6	7·2	8·2	9·4	9·5
Congolese companies	21·7	24·3	20·6	19·3	18·5	20·1	21·0

Taking 120 British companies with capital invested abroad, J. F. Rippy[27] records that they realised profits equal to *twice the amount of their capital* during their five most prosperous years alone.

H. J. Dernburg[28] has compiled the following table of ratios between the profits of American companies and their book value:

	Companies operating in under-developed countries	*Companies operating in the U.S.A.*
	%	%
1945	11·5	7·5
1946	13·4	9·1
1947	18·1	12·0
1948	19·8	13·8

Paul A. Baran[29] records the following dividends paid in the Netherlands by companies operating:

	In the Netherlands	*In Indonesia*
	%	%
1922	4·8	10·0
1923	4·2	15·7
1924	4·5	22·7
1937	4·5	10·3
Average for 1922–37	3·975	12·7

Finally, the secretariat of the International Metalworkers' Federation prepared for the conference on steel held in Vienna between 19th and 21st March, 1959 a study of "the largest steel-making companies in the free world" which contains this significant table: [30]

National average for 1957 of profitability, i.e. net profits plus depreciation, in percentage of turnover, of the large steel-making companies.

	%		%		%
Saar	7·4	France	11·2	India	14·7
West Germany	7·4	Luxembourg	11·3	Mexico	20·1
Japan	9·6	U.S.A.	12·4	Chile	20·5
Britain	9·8	Austria	±13·0	South Africa	28·8
Italy	10·5	Australia	13·6	Brazil	48·4
Belgium	11·2	Canada	15·0		

Here is another example of the size of these colonial super-profits: the big Royal Dutch oil trust published in 1950 an expensively-produced book to commemorate the sixtieth anniversary of its foundation. On that occasion it calculated that a shareholder who had bought just one share in 1890 and who had used part of the income arising from this share to buy newly-issued shares (subscription being preferentially reserved to existing shareholders) would have owned in 1950 406 shares with a stock-exchange value of 2,800 florins each, or 1,136,000 florins (nearly $300,000) in all. He would have had to pay out only 400,000 florins to acquire this property, and he could easily have found this sum of 400,000 florins out of the total amount of dividend received during these sixty years, which came to not less than 1·8 million florins ($480,000). The single share bought for 1,000 florins in 1890 would thus have brought him an annual income reaching 30,000 florins, so that he could have lived in comfort on the income from that share alone while at the same time accumulating a fortune of more than a quarter of a million dollars.

This is not surprising when one realises that the dividends paid by this colonial trust amounted at the start to 70 per cent [a year!], then wavered between 40 and 50 per cent, stayed around 25 per cent between 1920 and 1930, and "fell" on the eve of the Second World War to 16 to 17 per cent—all this without taking into account the very numerous "bonus" issues.[81]

Colonial super-profit is a function of an organic composition of capital which is lower and a rate of surplus value which is higher than in the highly-industrialised metropolitan countries. The lower organic composition of capital reflects above all the feeble development of manufacturing industry, the predominance of mining, plantations and in general of forms of production which require relatively little plant. The higher rate of surplus value reflects the very low level of wages, the long working day, the persistence of the exploitation of the labour of women and children, the absence or non-application of social legislation, the wide-spread use of forced labour or labour paid in kind, in brief the continued existence, in colonial and semi-colonial economy, of the features of *super-exploitation* which were found in the European economy in the eighteenth and nineteenth centuries.

The economy of Northern Rhodesia offers a striking instance of the high rate of surplus value. According to UNO statistics, the *total* amount paid out in wages (to black workers and white) in 1952 was around 33 million dollars, whereas the gross profits of the companies came to nearly 160 million dollars. Such a rate of surplus value, over 400 per cent, existed in Europe only in the age of usurer's, merchant's or commercial capital.

The high profits of colonial companies are often the combined result of colonial super-profits and monopoly super-profits (monopoly rent, cartel rent, etc.). This is in particular true of the super-profits made by the oil companies in the Middle East and in Latin America.

It is, however, more than anything else the extremely low wages of the workers in the colonies that underlie colonial super-profits. This low wage level becomes apparent when one compares the earnings of the colonial labour-force with those of the European workers in the same countries, or with the average earnings of the wage workers of the industrially advanced countries.

Thus, in *India*, an hourly wage of 9·4 to 12 American cents was recorded in 1947–48 in the textile industry, as compared with 104 to 106 American cents in the same branch in the U.S.A.[32] In *Indonesia*, the *daily* wage in the textile industry in the island of Java was 6 to 13 cents in 1939, while the seasonal workers in the sugar industry made 11 cents a day.[33] This figure can be compared with the average daily wage in all occupations (excluding mines) in the Netherlands in 1938, which was 1·75 dollars. In the Brazilian textile industry hourly wages amounted in 1950 to 29·25 American cents, i.e. one-fifth of the wages paid in the U.S.A.

In Africa the situation is especially edifying. At the regional conference of the I.C.F.T.U., held at Accra 14th–19th January, 1957, the following daily wage-rates were reported for unskilled workers (in U.S. dollars):

Basutoland	0·28
Belgian Congo	0·80
British Somaliland	0·40
French Somaliland	0·80
Gold Coast	0·50
Gambia	0·50
Kenya	0·50
Nigeria	0·70
Nyasaland	0·22
Sierra Leone	0·56
Uganda	0·40
Tunisia	2·00

These were average wages paid at different dates during the period 1953- 56, and determined by different, and therefore not strictly comparable, methods. Nevertheless, these rates provide us with a useful element for making comparisons, especially if we compare them with the average wage in the Netherlands, one of the lowest in Western Europe, which is 3·50 dollars (social benefits included), not to mention that in the U.S.A., which is 10 dollars.

George Padmore *(Africa, Britain's Third Empire)* estimates that in the early fifties the average daily wage of an African worker in gold mines of South Africa was not more than 2s. 8d., plus rations; the average wage of a European worker in the same mine was £1 16s. 0d. Even if the value of the rations provided is counted as being equal to the wages paid in money, the total wages paid annually did not come to more than £32 million for the 400,000 Africans as against £16 million for the 30,000 Europeans.[34]

An official publication of the United Nations[35] makes the following comparison between the income per head of population of the African population, and that of the Europeans in some African countries in 1949:

	African population	*Non-African population*
Kenya	£6	£209
Northern Rhodesia	£5	£292
Southern Rhodesia	£9	£306

It is sometimes asserted that this very low wage level is due to the "lack of needs" of the workers in the colonial countries. This claim is contradicted first by the frightful state of poverty in which they live, a state which borders on famine (see on this subject Josué de Casro's remarkable work. *Géopolitique de la Faim* (Geopolitics of Hunger): the daily consumption of calories has been estimated at 1,200 in Bolivia, 1,000 in Ecuador, and 2,000 in Colombia, i.e. half or even less of the physiological minimum for people who work.[36] Moreover, all economists concur in stating that the inhabitants of the under-developed countries have quickly assimilated the needs which are characteristic of the advanced countries and thus demand "a level of consumption which the economy cannot give them". A whole school even regards this "imitation effect" (Duesenberry) as one of the main obstacles to the industrialisation of the under-developed countries.

Others again see in the low wages a reflection of the "low level of productivity" of the colonial labour-force. This theory is glaringly contradicted by facts in certain instances (oil, mining, etc.) in which the physical output per worker is higher than in some enterprises in the U.S.A., whereas the wages paid amount to only 10 per cent of the American wages.* But even were this theory to seem to conform to the facts, it contains a flagrant error of reasoning.

* See in Chapter 5 the comparison between productivity in the American, British and Japanese steel industries.

Productivity is above all a function of the equipment made available to the worker, of his technical and general cultural level, and of his capacity for physical efforts. Now, colonialism creates an abnormally low level of precisely these three fundamental factors of productivity. It can be claimed with very much more justification that *the low level of productivity is not the cause but the result of the low level of wages, and of the all-round under-development* which is characteristic of colonial and semi-colonial economy.

The fundamental economic cause of the low level of colonial wages —and so also of colonial superprofits—lies in the existence of an enormous industrial reserve army in the colonial and semi-colonial countries, i.e. in the lack of jobs and in rural unemployment. This phenomenon explains not only why wages are low in the colonial and semi-colonial countries but also why they *stay practically unchanged* over long periods, despite the simultaneous increase of production and of industrial productivity.

"It is this continuance of the conventional level of low wages, even when the 'transition phase' has passed, which . . . gives substance to the discontent with the 'nineteenth-century' pattern of development," writes Mr. Myint, and he goes on: "Wherever it (the cheap labour of India and China) was imported, it decisively pulled down wages and incomes in the 'semi-empty' countries to the very low level appropriate to the over-populated countries . . ."[37]

This phenomenon is true of Ceylon, Indonesia, Malaya, Mauritius, Fiji, parts of South and East Africa, the West Indies, etc.

Oscar Ornati considers that the real wages of the Indian workers remained practically the same all through the period 1860–1900, when Indian industry was being established; they rose a little between 1900 and 1910, owing to a temporary shortage of industrial labour.[38] The work *The Economic Development of Brazil*, published by the United Nations, records that throughout the years 1939–53, which nevertheless saw an exceptional advance in industrialisation, and so an increase in productivity, real wages remained practically unchanged, owing to the constant influx of the excess population of the countryside into the towns.[39]

In the case of Egypt, Issawi[40] points out that real wages fell by 35 per cent between 1912 and 1929, and then by not less than 50 per cent during the crisis of 1929–33, which brought them down to famine level in the literal sense of the word. The annual consumption of cereals and vegetables per head of population fell from 287 kilograms in 1914 to 245 kilograms in 1936–38. The productivity of the day-labourer, calculated in terms of amount of earth shifted per day, has declined by 25 to 30 per cent since the First World War.

The explanation of this phenomenon is a very simple one: it is provided in this striking description by Professor Harbison: "There are vast surpluses of under-employed agricultural labour which, with few exceptions, are located fairly close to the centres where industrial establishments are concentrated. Moreover, in the already overcrowded urban areas there is an almost inexhaustible pool of unemployed or partially employed labour . . . The prospect is that there will be more workers pushed off the land and out of the villages because of near starvation than there will be jobs in industry available for them."[41]

The work from which this quotation is taken observes with regard to French West Africa that, down to 1953, the Governor fixed the minimum wages at 10 per cent below subsistence level, because economic conditions made it impossible for the trade unions to fight for their rights. And in the British West Indies all wages are kept below subsistence level because "a job at any wage is better than no job."[42]

The world-wide division of labour

The export of goods to the backward countries during the nineteenth century had the effect of destroying the old modes of production in these countries without making possible the introduction of the new capitalist mode of production. The export of goods made up to some extent for the inadequacy of the native property-owning classes as regards accumulation of capital, and so made possible an initial phase of capitalist development in these countries. But the imperialist bourgeoisie introduced the capitalist mode of production into the colonial and semi-colonial countries in a very special way. It developed there without any connection with the country in question's needs for economic or industrial development, but, instead, in accordance with the exclusive interests of the imperialist bourgeoisie and of the metropolitan country itself.

In the capitalist countries of Europe and America, as also in the "white" dominions of the British Empire, the capitalist mode of production developed more or less organically, despite the spasmodic pattern of its growth. The manufacturing transformation industries were developed parallel with or even prior to the basic industries; light industry was directed primarily towards the internal market, which in its turn expanded because agriculture provided raw material for industry; a proportionate development of all branches of the economy, impossible of achievement in the short run owing to the anarchy of capitalist production, was realised in the longer run, by way of crises and depressions.

The development of the mode of production proceeded otherwise in the colonial and semi-colonial countries. The capital came from the bourgeoisie of the imperialist countries, who were looking for a kind of production with guaranteed markets, which would make it possible to *realise* the colonial super-profits produced by colonial labour.

But the under-developed countries are by definition poor, with a narrow internal market for manufactured goods;* their wants in respect of industrial products are moreover as a rule covered by the capitalist industry of the metropolitan country, which is not in the least tempted to compete with itself. This is why the capital exported to the under-developed countries specialises essentially in production *for the world market* (together with the establishment of the infrastructure needed for this production).

"Such modern production as was developed in colonial areas was primarily for the world rather than the local market. The growth of the seaports is evidence of this, as is the absence of interior communication networks . . . In all colonial areas, the contribution of the local peoples to industrial development has mainly taken the form of labour."[44]

And in order to avoid competition with the metropolitan country's industrial production, this production for the world market is essentially a production of *agricultural and mineral raw materials*. The economy of the colonial and semi-colonial countries becomes the *complement* of the capitalist economy of the metropolitan countries and is developed only within the limits set by this function.[45]

The result is a completely one-sided economic development, limited to the production of a small number of products or even of a single product (monoproduction, monoculture). In *Chile*, the tax on sodium nitrate exports provided, on an average, half of the state's revenue between 1880 and 1930; after that, copper took first place. In *Cuba* sugar is the backbone of the economy; in 1937 it accounted for 78·7 per cent of the value of all exports. In the same year, exports of tin from *Bolivia* made up 70 per cent of all exports. This percentage is still higher in the case of cotton exported from *Egypt*, the *Sudan* and *Uganda*, of oil exported from *Venezuela, Iraq, Saudi Arabia, Kuwait* and *Qatar*. Coffee provided in 1955 69 per cent of *Guatemala's* exports and 84 per cent of *Colombia's*. In the same year bananas made up 74 per cent of *Panama's* exports, and coffee and bananas together 72 per cent of exports from *Honduras*, 75 per cent of those from *Ecuador*, and 87 per cent of those from *Costa Rica*. Ground-nuts and products derived from them represented 85 per cent of *Senegal's* exports, and coffee and cacao 85 per cent of those from the *Ivory Coast*.

In *Malaya* exports of rubber and tin accounted in 1939 for over 80 per cent of the total figure. In *Greece* tobacco provided between 55

* Here is a striking example quoted by Professor Nurkse[43]: "In Chile . . . it has been found that a modern rolling mill, which is standard equipment in any industrial country, can produce in three hours a sufficient supply of a certain type of iron shapes to last the country for a year."

and 60 per cent of all exports in the inter-war years. *India's* exports of jute and tea, *Brazil's* of coffee and cotton vary between 55 and 75 per cent of the total exports from these countries. In *Indonesia* the exports of rubber, petrol, tin and copra make up 80 per cent of the total. *Ceylon's* exports of rubber and tea account for the bulk of sales abroad. The list could be completed by including practically every under-developed country.

Monoculture and monoproduction make these countries strictly dependent on the international business situation, and entail a number of economic and social defects: a fundamental instability in the economy, which is subject to sudden fluctuations; repeated bursts of inflation and increase in the cost of living; substantial periodical unemployment; serious disturbance of the country's ecology through soil-erosion; over-exploitation of the soil, causing its exhaustion; under-nourishment of the population owing to the excessive spread of monoculture with disastrous effects on the fertility of the soil.

"The prevailing starvation in South America is a direct consequence of the continent's historical past. This history is one of colonial exploitation along mercantile lines. It developed through successive economic cycles, the effect of which was to destroy, or at least upset, the economic integrity of the Continent. There were the cycle of gold, the cycle of sugar, the cycle of precious stones, the cycle of coffee, the cycle of rubber, the cycle of oil. And during the course of each of these cycles, one finds a whole region giving itself up entirely to the monoculture or mono-exploitation of a single product—at the same time forgetting everything else, and thus wasting natural wealth and neglecting the potentialities of regional food supply. The one-crop culture of cane sugar in the Brazilian North-East is a good example. This area once had one of the few really fertile tropical soils. It had a climate favourable to agriculture, and it was originally covered with a forest growth extremely rich in fruit trees. Today the all-absorbing, self-destructive sugar industry has stripped all the available land and covered it completely with sugar cane; as a result this is one of the starvation areas of the continent. The failure to grow fruits, greens and vegetables or to raise cattle in the region has created an extremely difficult food problem in an area where diversified farming could produce an infinite variety of foods."[46]

Boyd Orr has had to note[47] that "in some of the central Latin American countries soil erosion is more serious than in North America"; owing to the lack of rational exploitation, which in turn is due to monoculture.

The same phenomena are found in Africa and Asia: "It is not only because it cuts down local production of foodstuffs that the régime of production for export is ruinous to the natives, but also because it exhausts the soil by intensifying the factors of erosion. This has happened with cocoa-bean-growing in the Gold Coast and monkey-nut growing in Senegal."[48] Professor Gouron[49] declares that the "great extension of the cultivation of ground-nuts is a false wealth" for the Sudan, that its forests are on their way to disappearance and that the soil and agriculture are suffering frightful damage.* In Ceylon, the Report of the Kandyan Peasantry Commission (Colombo, 1951) explains how the monoculture of coffee and tea, and the uncontrolled deforestation, brought about ecological damage which was the fundamental cause of the serious floods experienced in 1957.[51]

In Egypt the extension of cotton-growing and the practice of permanent instead of periodical irrigation caused a rapid exhaustion of the soil. Owing to the lack of drainage, the same phenomena, closely linked with monoculture, transformed the Nile valley into a real lazar-house: 55 per cent of the population had bilharzia, 30 per cent ankylostomiasis and 15 per cent malaria; among the rural population the percentage of unfortunates suffering from bilharzia, a very debilitating disease, amounted to 75 per cent.[52]

The reduction in the area under grain crops in countries like India, although they suffer from a chronic shortage of foodstuffs, is a further consequence of monoculture. In the period between 1934–35 and 1939–40, the area of India's soil under food crops declined by 1·5 million acres, while during the same period the area under export crops increased in the same proportion.[53] At the time of the Korean war boom a similar phenomena occurred; the area under rice fell by 8 per cent to the advantage of the area under cotton.[54] In Egypt the wheat-growing area fell sharply during the First World War, to the advantage of cotton, causing a serious famine.[55]

The apologists of imperialism sometimes claim that monoculture and monoproduction are the consequence of "natural" conditions in the colonial and semi-colonial countries. This does not fit the facts. Though these countries certainly possess abundant natural riches, equivalent riches did not lead to monoproduction in England, Canada, Sweden, Belgium, Bohemia, Silesia, the Ruhr, etc. Monocultures, far from being "natural" have usually been *imported* from abroad (notably, coffee in Java, Ceylon, and Brazil, cotton in Egypt and the Sudan,

* In the study of indigenous peoples published in 1953 at Geneva by the International Labour Office, a similar process is described which happened among the Maoris in New Zealand when the white men first appeared there. "The efforts made to produce sufficient cleaned native flax to exchange for firearms had seriously affected the production of foodstuffs and energies of the people. The abandonment of land with the decline of numbers was a contributory cause of the loss of tribal holdings to the white man . . . It has been estimated that in the hundred years following 1840 the Maoris lost, through sale or confiscation all but 4 million of the 66 million acres comprising the total surface of the country."[50]

sugar-cane in Cuba, etc.). The best example in this connection is natural rubber in South-East Asia:

"The increased demand was met from plantations (both large-scale capitalistic estates and peasant smallholdings) of South-East Asia, chiefly Malaya, Sumatra and Java, while the output of wild rubber from South America declined despite favourable prices. A principal reason for the migration of the rubber-growing industry is to be found in the access of these countries to large reservoirs of labour in South India, China and Java, as well as to the capital markets of Western Europe; the presence of enterprising European merchant firms and a stable administration also played an indispensable part. It is of special interest that neither Malaya nor Sumatra, the two main producing countries, had a large indigenous labour force, a particularly fertile soil, or supplies of local capital when rubber was established there. No survey of their resources carried out, say in 1895, would have suggested that within a few years these territories would be the principal producers of the leading tropical plantation crop."[56]

In fact, as the same writers make clear, it was not only the crop itself that was introduced from abroad, but also the labour (Africans to the West Indies, Tamils to Ceylon, Chinese to Malaya and Indonesia, Indians to East Africa, etc.).

Thus, the penetration of the capitalist mode of production into the colonial and semi-colonial countries during the last three-quarters of a century has more than anything else produced there the degrading and barbarous effects of an all-round commercialisation of social life, without the complementary civilising tendencies of capital being allowed to flower.[57]

It was the imperialist export of capital that realised, for the first time in man's history, a genuine world-wide division of labour, a real universal world market, which intimately bound together all the countries in the world. At the time when this development had reached its highest point, on the eve of the First World War, the still relatively free circulation of goods, capital and people (though already hindered by protectionist and monopolistic tendencies) made all countries interdependent. Capital thus accomplished the socialisation and *de facto* internationalisation of production on the world scale, though almost exclusively to the advantage of the metropolitan countries.*

* "It must be admitted that, in contrast to the tremendous stimulus to further economic development enjoyed by the advanced countries, international trade seems to have had very little 'educative' effect on the people of the backward countries . . . The peasants 'specialise' for international trade simply by going on producing traditional crops by traditional methods or new crops which can be readily produced by traditional methods . . . The people of the 'semi-empty' countries appear to have obtained a smaller share of the gains from international trade than can be satisfactorily accounted for in terms of the initial social and economic conditions of these countries . . ."[58]

In bourgeois society, where the production of commodities becomes universal, no producer produces use-values first and foremost for his own consumption, using only his "surplus" for exchange. Similarly, before 1914, in no country was the totality of the production of commodities intended to satisfy primarily the country's own needs, with only the "surplus" for export. Each country has a number of branches of production which work primarily for the world market—shaped by international transfers of capital and in no way corresponding to any "natural" or "geographical" structure, let us recall! —and it exists only thanks to the income from these branches. The direct or indirect labour of the workers of many countries enters into every one of the products consumed in any single country. The social productivity of labour, considered from the international standpoint, goes forward with giant strides, owing to this specialisation which crushes the harmonious development of the backward peoples, just as the division of labour within a capitalist nation gave a tremendous push forward to the productive forces while pitilessly crushing the free development of individuals.

The interdependence of all the countries in the world is vividly described by Rosa Luxemburg: [59] "German metal products go to the neighbouring countries of Europe, to South America and to Australia; leather and leather goods go to all parts of Europe; German glassware, sugar and gloves go to Britain; furs to France, Britain and Austria-Hungary; glycerine dyes to Britain, the U.S.A. and India; slag for fertiliser to the Netherlands and Austria-Hungary; coke to France; coal to Austria, Belgium, the Netherlands, Switzerland; electric cables to Britain, Sweden and Belgium; toys to the U.S.A.; German beer, indigo, aniline and other dyes derived from tar, medical supplies, cellulose, goldsmith's work, stockings, fabrics and clothing made of wool and cotton, rails, all are exported to nearly every trading country in the world . . .

"On the other hand, however, we eat Russian bread and Hungarian, Danish and Russian meat; the rice we eat comes from the Dutch East Indies and the U.S.A.; the tobacco from the Dutch East Indies and Brazil; we import cocoa from West Africa, pepper from India, lard from the U.S.A., tea from China, fruit from Italy, Spain and U.S.A.; coffee from Brazil, Central America and the Dutch East Indies; meat extract from Uruguay; eggs from Russia, Hungary and Bulgaria; cigars from Cuba; watches from Switzerland; champagne from France; hides from the Argentine; bed-feathers from China; silk from Italy and France; flax and hemp from Russia; cotton from the U.S.A., Egypt and India; fine wool from Britain; brown coal from Austria; saltpetre from Chile; Quebracho wood for tanning from the Argentine; wood for building work and pit-props from Russia; wood for basket-making from Portugal, copper from the U.S.A.; tin from the Dutch

East Indies; zinc from Australia; aluminium from Austria-Hungary and Canada; asbestos from Canada; asphalt and marble from Italy, paving stones from Sweden; lead from Belgium, the U.S.A. and Australia; graphite from Ceylon; phosphoric lime from the U.S.A. and Algeria; iodine from Chile . . ."

This world-wide division of labour, achieved through the export of capital, centralised the production of manufactured goods in Western Europe and the U.S.A., the production of basic foodstuffs in Eastern Europe and the large overseas countries (the U.S.A., Canada, the Argentine, Australia), and the production of vegetable and mineral raw materials in the rest of the world. But this division of labour, originally created by the export of capital, is inevitably undermined by it. The frightful differences in standard of living, the brutal subjection of one nation to another, prepare the way for the colonial revolution which in turn pushes forward the industrialisation of the underdeveloped countries and intensifies the international contradictions of capital.

International trusts and cartels

The export of capital becomes general at a definite stage of capitalist development: the monopoly stage, in which capitalist groupings, cartels, syndicates, holding companies and trusts already dominate large sectors of production in the metropolitan countries. The export of the capitalist mode of production to the colonial and semi-colonial countries means the export of monopoly capitalism, of the monopolistic trusts. The substantial amounts of capital needed for the creation of colonial enterprises; the strict check which the big banks keep on the capital market; the appearance of vertical trusts which monopolise the production of raw materials; the need to eliminate, so far as possible, competition within the capitalist sectors of the colonial economy, so as to ensure colonial superprofits—all these factors imply that production by the colonial countries for the world market is concentrated to an even greater extent than the concentration to be found in the metropolitan countries.

The growth of the *Unilever* trust will serve to illustrate how a monopoly of finished products spreads its influence in the colonial countries, in order to constitute a monopoly of raw materials. "The nature of the raw materials required by the soap maker made him (Lever) peculiarly conscious of the importance of foreign supplies. And the quality of Sunlight, depending as it did on imported vegetable oils, made Lever from the beginning alive to the problems of raw materials. Round about the turn of the century, the fear of being 'squeezed' for these materials by the merchants and brokers became almost an obsession with him, and in the projects for winning raw materials that followed there was probably a large element of defensive strategy."[60]

The disposition of sources of raw materials and the climatic and geological conditions which prevail in the different parts of the world are not, however, such that a single colonial country can secure a long-term monopoly of a mineral or vegetable product. These raw materials are produced for the world market; they do not possess any "protected" market, except perhaps that of the metropolitan country; there are hardly any outlets for them in the country of origin. The furious competition carried on between the big trusts which monopolise the production of raw materials on a world scale entails extremely bad consequences for prices and rates of profit.* To deal with this danger they proceed to form capitalist alliances on the international scale, international cartels which fix and limit total production, guarantee to each partner a precise share in production, and divide up the world market into zones in each of which one of the partners has exclusive rights both to sell and to acquire raw materials, partners who break the rule being liable to fines.

Down to 1922 the U.S.A. (Utah and Colorado) was the chief producer of radium. In that year the Union Minière du Haut-Katanga began to get uranium from its mines at Shinkolobwe; the results were such that after two years the American mines had to cease production. The Union Minière increased radium production from 20 to 60 grammes a year, and fixed the price arbitrarily, its only remaining competitors being Bohemia and Canada, where production however did not exceed 3 or 4 grammes a year. With costs of production ranging from £7 to £7 7s. 0d. a milligramme, the selling price was fixed at £10 to £12 a milligramme, which ensured a rate of profit of 50 to 65 per cent.

During the 1930s, however, Eldorado Gold Mines Ltd. began to develop some newly-discovered deposits in Canada; production rose from 3 grammes in 1936 to 70 grammes in 1938. Fierce competition raged for several months, and prices fell to 20 dollars (£4) a milligramme. An agreement was made at the end of 1938 between the Union Minière and Eldorado, fixing the allocation of the two companies at 60 per cent and 40 per cent respectively, of world needs, and prices rose again to 40 dollars (£8) the milligramme.[61]

The same writer, Prof. E. A. G. Robinson, quotes the example of raw diamond production. Controlled since 1890 by the De Beers (Oppenheimer) group, this production remained a monopoly of theirs for over 25 years. The development of an increasingly important production of diamonds in South-West Africa, Angola, the Belgian Congo, the Gold Coast and Sierra Leone destroyed the natural monopoly, but the world diamond cartel, the Diamond Corporation, dominated by De

* The dissolution of the synthetic nitrogen cartel in 1931 led to a fall of 43 per cent in a single month in the price of ammonium sulphate in London.

Beers, continued to regulate prices and (though less thoroughly) production.

These international cartels do not remain restricted to the trusts producing raw materials, though it is in this sector that they have become general and shown themselves most lasting. The enormous super-profits realised by these monopolies (monopoly superprofits and colonial superprofits combined) cannot be wholly invested in their own sector, where they would bring about a collapse in prices. The trusts which monopolise the production of raw materials thus spread rapidly to adjoining spheres, and then to spheres which are farther and farther away from where they started:

"Unilever will make and sell artificial cream in Finland, plywood in Nigeria, petroleum cracking catalysts in Warrington; it will can hams in Holland and export them to America, spend £129,000 on tea-bagging machinery for the Lipton business in the United States, now hitting new records, and lift its sales of animal feeding stuffs from £90 million to a record of £104 million . . ."[62]

Moreover, the circumstance that they possess a monopoly of sales (including retail sales) in the countries which are the big markets for a particular raw material enables monopoly groups to seize more quickly a predominant, or even monopoly, position in the country where the raw material is produced. A monopoly situation results at both the buying and the selling end.

This happened with the frozen-meat industry in the Argentine. It was a battlefield of epic struggles for influence between the American groups Swift, Armour, Morris and Wilson and the British groups brought together by Vestey Brothers. The latter, starting in 1922, recovered lost ground thanks to their control of 3,500 butchers' shops in Britain; they could increase the price they paid for meat in the Argentine by increasing still further the selling price of the meat in Britain. In the end, the two camps came to a *de facto* understanding, which caused a rapid fall in the prices paid to Argentine cattlemen.[63]

The number of international cartels has increased steadily since the end of the nineteenth century. There were 40 in 1897, 100 in 1910, 320 in 1931. The share of world production controlled by some of these cartels at particular moments is shown by this table.

	Year	*Percentage of world production*
Rubber cartel	1940	97
Phosphates	1937	92
Diamonds	1939	over 90
Copper	1939	over 90
Cement	1937	92
Potash	1939	91

Bottle-glass	1932	91
Electric lamps	1939	90
Sugar	1937	85
Tin	1939	83
Artificial silk	1929	70
Synthetic nitrogen	1932	67
European timber	1926	75
European steel	1929	32*
European steel	1936	45*

The international cartels guarantee their best-placed partners the same *cartel rent* as is obtained by national cartels. Actually, this cartel rent may be even greater on the international economic scale, given the differences in costs of production (and so in profitability) existing between the best-placed and worst-placed producers on the international scale.

The most striking example of this available is that of the *world oil cartel*. We have mentioned above† that this cartel, which has been in operation since the "Achnacarry Castle Treaty" of September 1928, fixes uniform selling prices regardless of the point of origin of the oil, and that it compelled the U.S. Navy to pay the same price in the Mediterranean as in the Gulf of Mexico, though Arabian oil is produced three or four times more cheaply than American.[64]

Similarly, Western Europe's supplies of oil between 1945 and 1954 were provided not on the basis of the price of production in the Middle East (the main if not the only supplier) but on that of the common price of the world cartel, determined in accordance with the price of production in the Gulf of Mexico plus the cost of transport from the Western Hemisphere to the ports of Western Europe. It thus included "phantom transport charges" which were added to the difference between the American and Arabian price of production. The result was a selling price of crude oil of nearly 2 dollars a barrel (average for 1947–54), or double, if not treble, the cost of production (tolls included) plus the real transport costs. This "cartel rent" amounted to *some £2 billion between 1945–46 and 1954*.[65]

It must further be noted that for the international cartels, as for the national ones, the law of uneven development brings about periodical changes both in the composition of the cartel and in the allocations between partners.

Thus, the activities of the Italian State holding company E.N.I. disturbed the stability of the oil cartel increasingly from the moment when E.N.I. acquired its own sources of supply, not only in Italy, but also in the Middle East and even in the U.S.S.R.; it offered its services to Egypt, Libya and Algeria for the development of produc-

* 70 per cent of world exports.

† See Chapter 12.

tion in these countries, thereby beginning to force down the price of oil in Western Europe.

It is possible to distinguish between buying cartels, selling cartels and integrated cartels:

(*a*) *International buying cartels* bring together the bulk of the buyers of a certain raw material and may thus cause a considerable fall in prices. In this way the international cartel formed in the summer of 1937 by the chief buyers of cocoa on the west coast of Africa (the Unilever trust, a British chocolate firm and a French shipping firm) secured a fall in the price of cocoa on the New York stock exchange from 12·5 cents a pound in January 1937 to 5·52 cents in December of the same year, which in turn brought about a social crisis in West Africa, during which the growers burnt large quantities of cocoa.[66] The present position of the U.S. Government as monopoly buyer of what are called "strategic" raw materials (strategic stockpiling) has enabled it to effect a considerable fall in the prices of these raw materials since the end of 1950.

(*b*) *International selling cartels* bring together the chief producers of a certain raw material or finished product. They are thus able to avoid a fall in prices and bring about a rise through establishing a "pool" of stocks and restricting production. The international rubber cartel established in 1922, led to a rise in prices from 17·34 cents a kilogramme in that year to an average of 72·46 cents in 1925.

(*c*) *Integrated international cartels*, bringing together the chief producers of certain finished products for the purpose of jointly buying their raw materials, forming a pool of stocks, restricting production, exchanging patents and technical information among themselves, dividing up international markets, etc.

An example of this type is provided by the world electric lamp cartel set up in 1924. Within such a cartel the interpenetration between the partners affects even the sphere of ownership, as is also the case with the international oil cartel. The American General Electric trust acquired substantial blocks of shares in the chief firms participating in the cartel. In 1929 it owned 29 per cent of the shares of Osram (Germany), 17 per cent of those of Philips (Netherlands), 44 per cent of those of the Compagnie des Lampes (France), 44 per cent of those of the A.E.C. (Britain), 40 per cent of those of the Tokyo Electric Company (Japan); 10 per cent of those of Tungsram (Hungary), etc.

Private trusts wield sovereign rights in under-developed countries

The economy of the colonial and semi-colonial countries is characterised by monoproduction and monoculture. As the production or the sale of goods on which a colony's economy is based is often monopolised by an international cartel or by a small number of trusts, these may secure really sovereign power over the life of whole nations.

They own enormous areas of land, on which sometimes live hundreds of thousands or even millions of human beings. The houses, the villages, the towns all belong to them, as well as the railways, the power stations, the postal services, the ports and sometimes even the armed forces; here we have no longer just "company towns"; they are "company countries".

The actual power of these trusts usually extends beyond the area where they reign as absolute masters. From the moment they acquire a decisive position in the economic and financial life of a country—with a big share of the state's revenue coming from the taxes they pay—they can likewise buy up mayors, politicians, newspapers, ministers, chiefs of police, army leaders, in capitals which are not necessarily built on land belonging to them. Their régime normally means complete corruption of public life.*

Official Foreign Office documents admit that the three ministers responsible for the agreement of 1919 between the A.I.O.C. and the Iranian Government had been bought, in the literal sense of the word, by London, and that the British Government promised them asylum in the British Empire, doubtless in case they should be driven out by their indignant people.[68] A work written in praise of the United Fruit Company relates candidly how the future head of this trust, Samuel Zamurray, acquired huge concessions in Honduras (the right to build a railway, a guarantee that taxes would not be increased, exemption from import dues for all equipment to be brought in, etc.), thanks to his having financed and personally supported with his yacht the "revolution" of General Bonilla, who drove out a government hostile to the granting of these concessions.[69]

These same phenomena are found, at different levels of intensity, but parallel to each other as regards the main lines, in Iran (before Mossadegh's nationalisation), dominated by the Anglo-Iranian Oil Company; in Honduras, Costa Rica and Guatemala, dominated by the United Fruit Company; in British West Africa under the sway of Unilever; in Katanga (Belgian Congo) under the domination of the

* Here is what was told to the International Court at The Hague by Mr. Mossadegh when he was Prime Minister of Iran: "On the pretext of security, Anglo-Iranian had secured the right to maintain a real secret police, closely linked with British intelligence, whose operations were not restricted to the oil province of Khuzistan but extended all over the country, penetrating all social classes, influencing the press, affecting public opinion, inspiring the undisguised interference by British representatives, whether diplomatic or industrial, in the running of the country's affairs. Thus, without meeting any resistance either from a Chamber resulting from elections which were distorted by its intrigues or from a Government composed in accordance with its wishes, the Anglo-Iranian Oil Company, having become a state within the state, decided the country's fate. This was, for thirty years, the condition of servitude and corruption in which Iran was plunged."[67]

Union Minière; in Liberia, dominated by the Firestone Rubber Company; in Borneo, in the empire of Royal Dutch; in Venezuela where the Creole Petroleum Company rules; in Chile under the Guggenheims; in Bolivia before the revolution of 1952, under the domination of the "tin kings" Patino, Hochschild and Aramayo, etc.

United Fruit and its subsidiaries, such as the Banana Shelling Corporation, the Canada Banana Corporation, Canadian-Equatorial Cacao, the Chiriqui Land Company, Clarendon Plantation, etc., possess 247,000 hectares of land (nearly all in Central America), including 17 per cent of the cultivated land in Costa Rica, 10 per cent of Panama, 5 per cent in Honduras and 1·3 per cent in Guatemala. It owns some 2,400 kilometres of railway, numerous radio stations, 65 cargo boats, etc.[70] In 1955 it controlled 35 per cent of all exports from Honduras, 69 per cent of Panama's exports and 41 per cent of Costa Rica's. Its gross profits for the same period were three times as high as the total of the state budgets of Costa Rica, Guatemala and Panama.[71]

Here is an example of how United Fruit discusses matters with the governments of states "on an equal footing"; in July 1938 the Costa-Rican Congress approved a contract which provided for the development of the banana industry on the country's Pacific coast. The United Fruit Company agreed to plant 4,000 hectares in five years, to build naval dockyards, harbour installations [!] at Quepos and Golfito, and two railways [!] in eight years. This programme entailed expenditure by the company of the order of 10 to 12 million dollars. In return, the government of Costa Rica undertook to keep its export dues on bananas down to 2 cents a bunch.[72]

Unilever discussed matters with the Belgian Government in a similar way, as one power with another:

"Lever . . . entered into treaty, almost like a sovereign prince, with the Belgian Government, and on 14th April, 1911 a convention was signed with the Belgian Congo which brought into existence 'La Société Anonyme des Huileries du Congo Belge'. Thus Lever, in the sixtieth year of his life, burdened already with the direction of a world-wide business, undertook a task which was little less than the reorganisation of a principality."[73]

Summing up the situation, a defender of the trusts, the former Under-Secretary of State of the U.S.A., A. A. Berle, observes: "In certain parts of the world an American corporation must do its business frankly and openly with the foreign government, with or without assistance from the United States Department of State. American oil companies doing business in Venezuela, American copper companies doing business in Chile, American sugar companies doing business in the Dominican Republic, for example, deal directly with the competent authorities of those states . . . Some of the larger corporations have continuous and careful reports made to them on the attitudes and aptitudes of the American diplomatic officials, rating them according to their probable usefulness in advancing or protecting the company's interest."[74]

The economic structure of the under-developed countries

The present structure of the under-developed countries is the product of their past and of the particular way in which they have made contact with capitalism. It is thus a matter of *combined* development—the combination of an *ancien régime* in dissolution with a capitalism which carefully refrains from developing industry; the combination of a medical technique which reduces the death rate with the suppression of any industrial technique that would make it possible to give work, dignity and hope to the people thus kept alive.

It is *industrial under-development* that is the basic flaw in the economy of the under-developed countries. This under-development itself has two roots: first, the fact that foreign capital invests nothing, or almost nothing, in the development of manufacturing industry; and, second, the fact that the indigenous ruling classes themselves prefer to invest in land, trade or usury rather than in building up modern industry.

In 1914 over 85 per cent of British investments abroad were in railways, production of mineral or vegetable raw materials, and State loans.[75] In 1951–52, of the total of French public investments in overseas dependencies, less than one per cent were in manufacturing industry.[76]

Out of the total of 16·3 billion dollars invested abroad at the end of 1953 by U.S. firms, only one billion, or a little over 6 per cent, was invested in manufacturing industry outside Canada and Western Europe (and of this a large part was invested in Australia, New Zealand, Israel, South Africa and other countries of the same sort, which are not colonial or semi-colonial in the strict sense).[77]

Industrial under-development is even further intensified through the break-up of the old craft industry, domestic industry, and sometimes even manufacture which existed in countries like India, China, Indonesia, and the countries of North Africa, and which succumbed to the competition of the cheap products of the modern industry of the West:

"The village which was the basic economic and cultural unit of these people came under the disrupting forces of technology. Its self-sufficiency disappeared and it became tied up with the city, the nation and the outside world. Village industries, such as spinning and weaving, pottery, brassware, oil pressing, vegetable dyes, lacquer work, etc., languished; machine-made goods, such as aluminium wares, kerosene, textiles and synthetic dyes took their place. A superfluity of cheap manufactures displaced the craftsman, depriving the group of his hereditary skill."[78]

Thus, industrial employment declined, if not in absolute figures, then at least in its relative share of the growing population. In India, according to official statistics, the percentage of the working population living by modern industry *fell* from 5·5 per cent in 1911 to 4·3 per cent in 1931. Since then, down to India's independence, it went on declining, the previously-quoted United Nations document giving us the following percentages of new jobs in industry for the increased working population:[79] 1931–39: 0·8 per cent 1939–45: 4·5 per cent 1946–48: 0·7 per cent.

Only after independence were these percentages improved a little and only since then can we estimate that modern and domestic industry now provides employment for more than 10 per cent of the working population. *But the percentage of the population living by agriculture was at the end of the fifties still higher than in 1891*, as we see from the following table:

	Percentage of the working population engaged in agriculture	
1891	61·1	(All these figures are taken from the official censuses carried out in the given years.)
1901	66·5	
1911	72·2	
1921	73·0	
1931	65·6	
1950–51	72·0	
1952	68·0	
1956	± 70·0 (Official Second Five-Year Plan)	

And the Indian authorities hoped that they would be able to reach again the 1891 percentage only around 1975–76!

It was the same in North Africa after the French conquest. The number of native craftsmen in Algeria declined from 100,000 in the middle of the nineteenth century to 3,500 in 1951. During a few years after the war, owing to the invasion of manufactured goods favoured by the Anglo-American military occupation of 1942–44, the number of craftsmen declined from 39,267 in 1946 to 6,466 in 1951 in Marrakesh and from 31,805 in 1946 to 12,608 in 1954 in Fez.[80]

The reduction in non-agricultural employment (relative to the increase in population) causes a terrible *pressure on the land*, accompanied by chronic under-employment in the countryside, a state of agricultural overpopulation which amounts to formidable proportions.

Before the war the rural overpopulation of Eastern Europe was estimated at 45 per cent of the adult population of the villages.[81] In Egypt this percentage was as much as 40 to 50 per cent: "It may be safely affirmed that about half the present rural population is 'surplus' in the sense that there is no adequate employment for it within the present agricultural framework. In other words, the same output could be obtained with only half the present rural population, even if no changes were made in technique and organisation."[82]

In Ecuador the degree of overpopulation is estimated at 35 to 40 per cent of the population of the Sierras.[83]

As for India, the official text of the first Five-Year Plan estimates that the unemployed in the countryside make up 30 per cent of the adult population (nearly 70 million people) and that in addition unemployment affects millions of cultivators working on dwarf plots.[84] Earlier, the same document noted that of the four million agricultural workers recorded in 1951 census, 89 per cent had no steady job and worked only at irregular intervals.[85] Seven years later, D. K. Rangnekar estimates that the "useless" population—that is, those whose disappearance would not cause any decline in agricultural production—amounts to 25 per cent of the working population of the Indian countryside, or 60 million people.[86] According to Bonné[87] the number of agricultural workers without land increased from 7·5 million in 1822 to 35 million in 1933 and 68 million in 1944.

The pressure of these huge masses of people on a limited area of land is such that ground rent attains unheard-of proportions. Before the Chinese revolution ground rent was officially estimated at an average of 40 per cent or even 60 per cent of the harvest.[88]

A United Nations publication gives the following examples of ground rent currently in force:

(*a*) 50 per cent of the harvest in Japan as rent between 1868 and the Second World War;
(*b*) rents varying between 35 and 50 per cent of the harvest in Vietnam (with a rate of interest of 100 per cent for loans!);
(*c*) rents of 30 to 50 per cent for land leased in the Philippines, the higher figure being the more usual.[89]

"Because of the competition for land, the landowners and moneylenders have been able to make the peasants agree to more and more onerous terms for the use of the soil and of credit. Enforcement by British officials of law and order has served to protect the landholding groups from the more violent expressions of popular resentment. It is in this setting that the cultivators, while retaining in their own hands the conduct of agricultural production, have been stripped of the resources with which to increase their output."[90]

In India and Pakistan too the average rent for farms was and remains 50 per cent of the crop.

Alfred Bonné quotes an article on Iran which estimates that *the net incomes of the landowners amount to a third of the crop.*[91]

Quoting an Iranian work, *The Middle Classes in Iran*, by Dr. Elisan Naraghi, *Le Monde* states that the share-croppers in that country retain only 20 per cent of the crop! Sixty per cent of peasant families had no holding and 23 per cent had less than one hectare.[92] But the most disastrous consequence of this state of things is not the low level of agricultural productivity, it is the diversion of the entire social surplus into landownership and usury, which create more income than industry.

Issawi speaks of the enormous value of land in Egypt, one acre being worth the equivalent of twenty years' wages of an agricultural worker[93] Bonné notes:

"This inflated rent level is the reason . . . why many capable landowners who reside in rural villages prefer to rent their land to small farmers rather than work it themselves. The landlord can insist on such high prices because there is always a great demand for leased land on the part of the landless tenants who have no other chance of making a living; thus he obtains a higher income from leased land than from such land when worked by himself."[94]

A United Nations publication makes the same observation, and Daniel Thorner writes: "The Indian landowners have found rent and usury, as opposed to capitalistic profit, easier, safer, more congenial and more lucrative. Thus, for example, in testifying a quarter of a century ago before the Royal Commission on Agriculture in India, Mr. M. A. Momen, Director of Land Records and Survey in Bengal, asserted: 'I have got sufficient lands and do some cultivation myself. I find however that letting them out on half the produce (sharecropping) is more paying than cultivating the lands with my own cattle and by hired servants'."[95]

The arguments which tell against capitalist enterprise in agriculture tell even more strongly against capitalist enterprises of the industrial type. The purchase of land, commerce and usury, these are the investments preferred by the ruling classes of the colonial and semi-colonial countries. They thereby take on a special physiognomy, that of the landowner-merchant-usurer, the landowner-usurer or the merchant-usurer (bourgeoisie of the *compradore* type).

Thus, industrial under-development and the chronic under-employment it involves are at once cause and effect of the concentration of capital in landownership and in hoarded precious metals. Under-development, a product of the dominant imperialist interest, is closely linked with the existing social structure. The interests of the independent ruling classes (with the—partial—exception of the extremely weak industrial "national" bourgeoisie) are bound both by economic ties (shares in foreign trade and in imperialist banks) and by political ones (desire to keep the peasant class in a subject state) to those of the imperialist masters. A deep-going social revolution is indispensable if the road to industrialisation and economic advance is to be opened.

This general physiognomy of the economy of the under-developed countries must of course be filled in for each separate country with the significant national peculiarities which differ from country to country (and in countries of continental size, like India, China or Brazil, from province to province). Nevertheless, it is generally applicable to all the under-developed countries, though, of course, in degrees, with the sole exception of the countries of Equatorial Africa and the islands of Oceania other than Indonesia.

Imperialism as an obstacle to the industrialisation of the under-developed countries

The economic under-development of the colonial and semi-colonial countries is a result of imperialist penetration and domination, and is maintained, preserved and intensified by this domination. To eliminate it is the fundamental condition for clearing the way to progress: it is even more important than the removal of the native ruling classes, though the two processes are usually inter-connected.

It is hard to deny that the lack of foreign domination was the decisive factor making possible the industrialisation of Japan, encouraged by all the resources of the State.* For the period 1896–1900 industrial production per head of population was only three times bigger in Japan than in India (5·7 dollars compared with 1·5 dollars); in 1936–38 the difference had become enormous (65 dollars compared with 4·90 dollars).[96] All the colonial and semi-colonial countries which have won political freedom, or have been governed by representatives of the industrial bourgeoisie, have undertaken a vigorous effort at industrialisation which sharply contrasts with the attitude of the governments under imperialist control. The examples of the Argentine under Peron and Egypt under Nasser are typical, likewise the Indian Five-Year Plans.

Nor is it possible to deny that the industrial, commercial and financial ties between the metropolitan and colonial countries which they dominate represent powerful hindrances to industrialisation: "Restraints on the setting-up of new firms . . . may be imposed from outside the country . . . by a company or a group of companies with a particular interest in the industry in question. The possibility and the effectiveness of such opposition to local industrial development are likely to be greatest where political and economic ties are closest, as in the case of a metropolitan country and its dependencies."[97]

The maintenance of free-trade relations between colonies and metropolitan countries is often sufficient on its own to produce this effect:

* See Chapter 14.

if it is not, refusal to share technical information leads to the same result: "It would be difficult, for example, for any of the less developed countries to establish a sizeable aluminium smelting industry on an economic basis without assistance from one or another of the world's major aluminium companies. It would be even more difficult to build and operate a petroleum refinery, without the support of one of the large oil companies."[98]

And Kuznets makes this observation: "Political subordination (is) not a very favourable condition for rapid adoption of the industrial system in politically inferior countries."[99]

A United Nations publication on Brazil states in terms no less plain: "The unwillingness of entrepreneurs to enter other sectors than their own, particularly those in which the market is traditionally supplied by importers . . . creates new difficulties for development. The fear exists among domestic entrepreneurs that their productivity is inferior to that of a foreign competitor, or that the latter, at one stage or another, may artificially reduce his prices in order to recapture the market. The domestic entrepreneur knows that he must compete with financially powerful groups, with highly efficient foreign manufacturers or with those enjoying optimum market conditions, ready access to raw materials, and low external costs."[100]

But it is important to emphasise that the totality of the exchange relations between metropolitan and under-developed countries—which amounts to an exchange of manufactured goods for raw materials—has been organised in such a way as to work systematically to the disadvantage of the latter and the advantage of the former. This emerges clearly from the study *Relative Prices of Exports and Imports of Under-Developed Countries,* which shows[101] that since the beginning of the imperialist era, that is, since 1876, down to 1948, the terms of trade between these two groups of countries have changed by 35 to 50 per cent, at the expense of the exporters of raw materials. A recent investigation by GATT shows that this process has continued in the years after the Second World War. Thus, during the recession of 1957–58, the prices of raw materials exported by the under-developed countries fell by 5 per cent, whereas the prices of the manufactured products they imported rose by 6 per cent.[102]

Whatever the technical reasons adduced to explain this phenomenon, it comes down in the last analysis to the difference in the level of productivity (socially necessary expenditure of labour) between the two types of country, that is, to the "equal" exchanging of *more labour* (less skilled and less productive) on the part of the colonial and semi-colonial countries for *less labour* (more skilled and more productive) on the part of the industrially advanced countries. International trade "on the basis of world prices" has thus merely perpetrated and in a sense "regularised" the transfer of values from the former to the latter, which is found at the very beginnings of international trade.*

This relative decline in the prices of raw materials exported by the under-developed countries is one of the most important hindrances to their industrialisation.† From time to time, and suddenly, it cuts down the State's revenue, so causing inflation and disorganising economic life; it especially limits the resources in foreign currency which are indispensable for buying equipment from abroad. Each time that this hindrance is temporarily removed (as during the Second World War), a feverish advance in industrialisation takes place.

It is not the too modest *absolute* amount of social surplus in the colonial and semi-colonial countries that hinders industrialisation. On the contrary, this social surplus is often higher in such countries than in the industrially advanced ones. The UNO publication on Brazil which has already been quoted notes that during the period 1947–53 the incomes of the entrepreneurs and capitalists varied between 85 per cent and 100 per cent of the total incomes of the wage-earners.[104] In Mexico, profits represented in 1950 41·4 per cent of the net national product; in Northern Rhodesia 42·9 per cent; in Chile in 1948 26·1 per cent; and in Peru in 1947 24·1 per cent, percentages equal to or higher than those in the industrially advanced countries. In Egypt, ground-rent profits and interest added up to 62 per cent of the national income of 1950.[105]

Even if these figures include the profits of small peasant enterprises it remains no less true that the surplus is not invested in industry, or is so invested only to an absolutely inadequate extent, which is what accounts for under-development. Among the elements making up this social surplus, the profits *transferred home* by metropolitan countries are substantial. Actually, except for the years 1889–91,

* This gap between prices of raw materials and prices of finished goods is closely linked with the contradictory way in which wages evolve in the two types of country. Since the establishment of strong trade union organisations in the West, nominal wages rise there when there is full employment and remain practically stable when there is unemployment. In the colonial countries, however, wages remain practically stable in boom periods and tend to fall in periods of crisis.

† Paul A. Baran[103] minimises the importance to be attached to the differences in price between raw materials and finished goods as hindrances (or helps) to industrialisation. He notes that a comparatively small share of the revenue produced by the export of raw materials goes to the inhabitants of an under-developed country. He forgets the effect on state revenues, which is very important, and also that on the balance of payments, or, putting the matter another way, the capacity to import industrial equipment. It is interesting to observe that Yugoslavia and Poland have complained about the unfavourable terms of exchange between themselves and the U.S.S.R., which have hindered their industrialisation (see Popović, *Economic Relations Between Socialist Countries*).

profits sent back home exceeded new investments of British capital abroad even before 1914.* At present, they constitute an important proportion of the national income (capable of increasing net investment by 50 to 100 per cent) in a number of countries. Here are some examples:

	Repatriated profits of foreign firms, in percentage of the national income, 1949
South Africa	4
Southern Rhodesia	4
Surinam	5
Santo Domingo	6
Iran	13
Venezuela	17
Northern Rhodesia	27[107]

And the previously-quoted United Nations study of Brazil gives the following picture of profits repatriated abroad, as percentages of Brazil's total savings:

	%		%
1939	4·5	1946	5·3
1940	25·0	1947	4·3
1941	20·0	1948	7·4
1942	18·0	1949	6·6
1943	0·8	1950	6·2
1944	8·9	1951	8·5
1945	16·6	1952	2·8

For the entire period 1939–45 the profits sent home by foreign companies in Brazil, including private profits repatriated by emigrants, etc., came to 735 million dollars.[108]

By blocking the industrialisation of the under-developed countries imperialism not only keeps up the level of its superprofits, counteracting successfully the tendency of the rate of profit to fall. It also creates the possibility, on the basis of its monopoly of productivity, of ensuring for the workers of the metropolitan countries standards of living higher than those in the colonies. Imperialism's boom period from 1871 to 1914 (and in part to 1929) rests on these two pillars. Both, however, are shaken by the results of the contradictions that imperialism has itself accumulated—the Russian revolution and the colonial revolutions.

* According to the Economic Survey of Latin America for 1951–52,[106] investment of foreign capital increased only by 2 billion dollars net in Latin America between 1945 and 1951–52, whereas the repatriation of dividends, interest payments, etc., amounted to 5·8 billion dollars.

Neo-imperialism

On the morrow of the Second World War, the colonial revolution shook the foundations of the imperialist system. In order to continue to exploit the colonial countries the capitalists of the metropolitan countries were increasingly obliged to go over from direct to indirect methods of domination. One after another the colonial countries were transformed into semi-colonial countries, that is, they attained political independence. In general, imperialism retained most of its former economic positions in the newly-independent countries, though it also had to swallow some reverberating nationalisations (the Suez Canal!). Only in countries where *capitalism* also was abolished was imperialist domination destroyed root and branch.

The system of indirect domination—neo-colonialism or neo-imperialism—is not only an inevitable concession by the metropolitan bourgeoisie to the colonial bourgeoisie. It also corresponds to an economic change in the relations between these two classes. The industrialisation of the colonial and semi-colonial countries is an irreversible process. It undermines one of the pillars of the old colonial system—the role of outlets for goods of current consumption which is played by the backward countries. Exports of these goods from the imperialist countries began to fall off, more and more, at first comparatively and later even in absolute figures. It is *exports of capital goods* that more and more take the place of the old type of exports, in so far as the under-developed countries still have to furnish a safety-valve for the tendencies to periodical overproduction which are inherent in capitalist economy. These exports are compatible with a higher degree of political and social independence of the colonial bourgeoisie in relation to imperialism. They even necessitate, to some extent, increased intervention by the State, which alone is capable of setting up large heavy-industrial enterprises in the under-developed countries. Among the imperialist bourgeoisie the interests of those who see the industrialisation of the under-developed countries as the strengthening of a *potential competitor* come into conflict with the interests of those who see it above all the emergence of *potential clients*. Usually these conflicts tend to be settled in favour of the second group, which is that of the big monopolies based mainly on the production of capital goods.

Propaganda for "aid to the under-developed countries" also assumes a special meaning. The exploitation of the "third world" by the imperialist countries goes forward more merrily than ever, as is shown by the deterioration in the terms of trade. But this deterioration deprives the under-developed countries of the means of buying an increasing amount of capital goods from the metropolitan countries. "Aid" to the under-developed countries comes in to make up the growing deficit in their balance of payments—and thus in the last analysis amounts to a *redistribution of profits within the imperialist* *bourgeoisie*, to the advantage of the monopoly sectors which export capital goods, at the expense of the "old" sectors (textiles, coal, etc.).

In billions of dollars	*1953*	*1954*	*1955*	*1956*	*1957*	*1958*
Importing capacity of the under-developed countries (income from exports less transferred dividends)	11·3	11·6	12·4	12·1	11·3	11·8
Imports from U.S.A. and Western Europe	12·4	13·6	14·8	16·0	18·7	18·0
Net import of capital less private long-term capital	1·6	2·0	2·5	2·9	5·2	5·2[109]

EXPORTS OF MANUFACTURED PRODUCTS TO THE "THIRD WORLD" *(1955 = 100)*

	1956	*1957*	*1959*	*1960*
Chemical products	106	122	116	122
Transport machinery and equipment	119	140	138	135
Other manufactured products	109	125	113	108
of which, textiles	101	107	93	90

On balance, "aid" means, moreover, a loss and not an increase in the reserves of the "third world", as it clearly seen from this table:

OFFICIAL RESERVES OF GOLD AND FOREIGN EXCHANGE AT THE END OF THE YEAR, IN BILLIONS OF DOLLARS[110]

	Industrialised countries	*Non-industrialised countries*
1954	37·86	11·74
1955	37·69	11·69
1956	38·56	12·03
1957	39·50	11·34
1958	41·36	10·42
1959	41·75	11·01
1960	44·58	10·50

It goes without saying that the "cold war" has stimulated the movement for aid to the under-developed countries, alliance with the colonial bourgeoisie being the only way in which imperialism can meet the continual strengthening of the anti-capitalist forces in the world. But the change in the structure of world trade to which neo-imperialism corresponds must be regarded as a factor working in that same direction in any case, even regardless of the conflict between West and East.

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CHAPTER FOURTEEN

THE EPOCH OF CAPITALIST DECLINE

Concentration and centralisation of capital on an international scale

FREE-TRADE capitalism was characterised by the world-wide industrial monopoly held by Britain. The passing of this monopoly, as a result of the appearance of a series of other big industrial powers, opened the period of the rise of imperialism. The partition of the world among these great powers made possible for forty years a fresh expansion of the world basis of the capitalist mode of production, not only of world trade and production but also of the trade and production of each of the imperialist countries.

This partition of the world was completed at the beginning of the twentieth century by the division of China into spheres of influence. But the forces impelling capitalism along the road of expansion remained more virulent than ever. The domination of the economy of the big, advanced capitalist countries by the monopolies was accompanied by a considerable increase in the organic composition of capital. Capital was more than ever on the hunt for super-profits. The shrinkage in the spheres not yet penetrated by the capitalist mode of production automatically restricted the possibility of finding new sources of super-profits through export of capital to industrially virgin countries.

The old-established industrial countries consequently became, in their turn, objects of capital's international expansion. Imperialist wars appear as the ultimate method for temporarily resolving the contradiction between the tendency for constant expansion of the basis of the capitalist mode of production and the limits henceforth set to this expansion by the conquest of the world. In these wars the productive forces, stifling within the ever more restrictive national frontiers, "free themselves" in an explosive way.

Imperialist war, which is war both for temporarily resolving the conflicts of international capitalist competition and for changing the allotment of spheres of influence in the world in accordance with changes that have taken place in the balance of strength among the great powers, appears as the main way in which the process of international concentration and centralisation of capital develops. It periodically impoverishes and ruins a section of the world bourgeoisie, in order to enrich and strengthen another section of this same bourgeoisie.

It deprives old imperialist countries of their game reserves and transforms these countries themselves into fields for investment of foreign capital. But at the same time it enables the nascent bourgeoisie of the colonial and semi-colonial countries to carve themselves a modest place on the world market, thanks to sudden interruptions or changes of direction in international trade. Uneven and combined development, which preside over the formation and evolution of capitalist monopolistic groupings, are also characteristic of the whole of economic progress in our epoch. While centralising in a small number of countries the available capital resources, this evolution, far from doing away with inter-imperialist competition, intensifies it both between the "Great Powers" and between the "little ones", which struggle desperately for their place in the sun.

On the eve of the First World War, three great powers were already, owing to their lack of capital, fields of investment for foreign imperialist powers: Russia, mainly for French and Belgian capital, and Austria-Hungary and Italy, for German capital. At the end of the First World War, Germany whose foreign investments in 1913 had ranked third largest in the world, was so impoverished that it became the chief field of investment for foreign capital, once the Reichsmark had been stabilised. Between 1924 and 1929 Germany absorbed 400 million dollars of imported capital each year, as compared with 136 million invested in Australia, 110 million in the Argentine, and 105 million in Eastern Europe. Japan, itself an expanding capitalist power, continued to be an important field for the investment of foreign capital.

The Second World War considerably speeded up this process of international concentration of capital. Britain, which was the leading exporter of capital before the First World War, was compelled to liquidate a large slice of its foreign investments in order to pay for the conduct of the war: this "disinvestment" has been estimated at 17 billion dollars. American capital is moving into Britain on an increasing scale. France, Holland and Belgium have lost part of their foreign investments and also become fields for the investment of foreign, especially American, capital. Japan, after having succeeded in extending the sphere of operation of its capital to the whole of South-East Asia between 1942 and 1945, collapsed and was compelled to open wide its own gates to American capital. The same happened to Germany and Italy. Germany's capital flooded the greater part of Europe and Western Russia between 1940 and 1945, only to be itself flooded with American capital after defeat.

At the end of this process, a small number of "overcapitalised" countries confronts the majority of states, which are henceforth "undercapitalised", that is, have a level of productivity which is less than the world average. The only countries which can nowadays be regarded as "over-capitalised" are the U.S.A. and Switzerland, along with (in a merely relative sense) Britain, Holland, Belgium and Sweden.

This state of overcapitalisation is marked:

1. By an annual surplus of capitalisable surplus-value, investment of which within the country itself can no longer bring in the average profit.
2. By monopolies of productivity.
"Practically the whole oil and petroleum chemicals industry, much of the plastics and the steel and engineering industries employing certain new and important techniques which have been set up or developed in the world during and since the war, pay royalties to American concerns, and are tied for certain critical items of equipment to the American manufacturers and their licensees. It is estimated that the British oil-refining industry alone pays annually several tens of millions sterling to the United States."[1]
3. By an increasing difference in the average age of industrial plant. In 1938 the U.S.A. spent 60 dollars per head of population on the depreciation of fixed capital, as against 50 in Britain and 35 in France and Germany. In 1950 this figure amounted to 140 in the U.S.A. as against 65 in Britain and 40 in France and Germany. Even allowing for the fact that in 1950 a dollar was worth only half what a dollar was worth in 1938, depreciation was proceeding faster in the U.S.A. and more slowly in Western Europe. This situation changed, however, after 1953 and especially after 1957.

According to the United Nations Statistical Yearbook for 1958, of 73 countries whose balance of payments was analysed for the period 1951–57, only six drew more income from their investments abroad than they sent abroad as return on investments within their frontiers. These countries were: the U.S.A. (annual net favourable balance of dividends, interest payments, etc.: 2·5 billion dollars); Britain (265 million dollars); Switzerland (100 million); Holland (65 million); Belgium (35 million); and Sweden (18 million).*

The countries whose annual tribute paid to foreign capital is highest are the following, the figures in brackets showing the annual average net export of dividends during the same period: Venezuela (550 million dollars); Canada (330 million); Australia (220 million); South Africa

* There are a number of borderline cases. France had a net outflow of dividends for the period 1951–54, and a net inflow after 1955; but the country continues to be a net importer of capital on a substantial scale. Portugal has a net favourable balance of dividends, but this is insignificant in comparison with the large imports of capital. The Lebanon and Eire have a small favourable balance, which is due more to remittances sent home by emigrants, or to the return of emigrants, than to capital invested abroad.

(190 million); Iraq (135 million); Brazil (130 million); Mexico (110 million); the Central African Federation (100 million); Iran (90 million); West Germany (68 million); etc.

Relative shrinkage and fragmentation of the world market

The age of imperialist expansion (1875–1914) was the age when a world market was effectively established and international trade expanded on a world-wide scale. The explosion of the inherent contradictions of the system, from the First World War onward, meant at the same time the break-up of the world market, its relative shrinkage and fragmentation.

(*a*) The Russian Revolution of October 1917, and later the expansion of the USSR into Eastern Europe after 1944, and victory of the Chinese Revolution, the events in Korea and Vietnam, and the Cuban Revolution, have deprived the capitalist market of one-third of the world, into which capitalist commodities, and especially capital, can no longer be freely poured.

(*b*) The outbreak and development of the colonial revolution since the Second World War has reduced the outlets for some capitalist products in other parts of the world.

(*c*) The industrialisation of a number of overseas countries, an unavoidable result, in the long-run, of the export of metropolitan capital to these countries, has transformed them from customers into competitors with certain branches of industry in the imperialist countries, especially those which produce consumer goods.

(*d*) The industrial advance of the U.S.S.R. and of a number of countries of the Eastern *bloc* has enabled them to replace the imperialist countries to some extent as trading partners of several under-developed countries, and even of some advanced ones, as is shown by the following table:

	Imports from Eastern bloc *countries, in percentages*			*Exports to Eastern* bloc *countries, in percentages*		
	1938	*1956*	*1957*	*1938*	*1956*	*1957*
Finland	9	25	32	3	27	28
Egypt	10	14	27	10	34	48
Turkey	12	15	16	12	20	21
Ceylon	1	9	4	1	11	11
Burma	—	19	7	—	14	10
Iran	36	10	12	10	17	25
Syria	—	4	7	—	8	22
Iceland	2	26	34	1	30	35[2]

Owing to this relative shrinkage of the capitalist world market, external trade can no longer play the same role of safety valve in relation to the tendencies to overproduction; which are inherent in capitalist production: exports absorb a smaller proportion of world production than before 1913.

Between 1850 and 1913 the volume of world trade increased by 900 per cent, whereas the income per head of the world's inhabitants was certainly not doubled (allowing for the 60 per cent increase in population). World trade thus apparently absorbed a proportion of world production nearly three times as great in 1913 as in 1850.[3]

On the other hand, between 1913 and 1951 international trade increased in volume by only 30 per cent, while the world's population grew by 40 per cent and income per head of population also increased (even if only modestly, when the under-developed countries are taken into account). Consequently, the volume of world trade rose much less markedly than the volume of world income and production; world trade absorbed a smaller proportion of world production.[4]

Despite the great expansion of world trade during the period 1953–60, this point made by Kuznets retains full validity today. World production of industrial finished products (100 = 1913) advanced from an average of 263 in 1946–50 to an average of 441 in 1958–59; the volume of exports of these same products (100 = 1913) advanced from an average of 100 in 1946–50 to an average of 173 in 1958–59. And even then the latter figure is inflated by the increase in exchanges within the European Common Market.[5]

A very typical example is provided by production of and trade in iron and steel products. Whereas between 1913 and 1950 world production of these products (not including U.S.S.R.) rose to index 229, world exports of iron and steel products (including finished goods) increased by less than 35 per cent. In 1957 iron and steel production was three times what it had been in 1913, whereas world trade in iron and steel products had increased by only 60 per cent.

It is the textile industry that particularly shows the combined results of the industrialisation of the under-developed countries and the structural shrinkage of capitalist world trade. In fact, this shrinkage is no longer merely relative; it has become absolute, and even takes the form of a collapse so far as cotton goods are concerned:

World annual production and export of cotton goods, in millions of yards

	1910–13	*1926–28*	*1936–38*	*1949*	*1951*	*1960*
Production	27,000	31,000	35,500	33,600	39,800	56,520
Export	9,500	8,550	6,450	4,900	5,800	6,480
In percentages	35	27·5	18	14·6	14·5	11·5[6]

At the same time the geographical distribution of production and exports has been profoundly changed, as is shown by the following figures, which relate to the number of spindles in the world (in thousands, only spindles used for spinning raw cotton being counted):[7]

	31.8.13	*1929*	*31.7.36*	*31.7.51*	*31.12.59*
Europe, of which	99,505	104,305	91,227	72,457	57,902
Czechoslovakia	—	3,573	3,562	2,355	1,950
France	7,400	9,880	9,932	8,035	6,071
Germany	11,186	11,250	10,109	6,206*	5,948*
Italy	4,600	5,210	5,442	5,694	4,854
Spain	2,000	1,875	2,070	2,210	2,626
Britain	55,652	55,917	41,391	28,152	14,104
U.S.S.R.	7,668	7,465	9,800	9,850	10,962
America, of which	34,260	39,570	32,841	30,358	28,415
U.S.A.	31,505	34,829	28,157	23,183	20,111
Canada	855	1,240	1,110	1,138	876
Mexico	700	751	862	1,114	1,192
South America	1,200	2,750	2,712	4,772	5,884
Africa	—	—	—	771	1,546
Asia and Oceania of which	9,393	18,836	25,582	22,408	41,668
China	1,009	3,602	5,010	4,250	9,600
India	6,084	8,704	9,705	10,849	13,281
Japan	2,300	6,530	10,867	5,244	13,012
The world	143,449	164,211	151,705	125,994	129,531

If production of cotton yarn has not fallen but increased during the same period, this is due to more intense utilisation of the existing potential and to increase in production per spindle, helped by technical improvements of spindles and rationalisation of mills. It is interesting to note that the U.S.A., which over a long period was the chief beneficiary of the shift in production and export capacity overseas from the countries of Western Europe, is now itself beginning to become a victim of this process. This is also shown in export figures. Since the end of the Second World War, the evolution of the export of cotton goods has proceeded like this in the case of some important exporting countries:

	In millions of square metres					*in hundreds of tons*	
	1947	*1948*	*1949*	*1950*	*1951*	*1954*	*1958*
China and Hongkong	—	—	—	—	—	204	602
Japan	324	417	623	910	836	1,248	1,250
Britain	445	636	756	684	723	708	438
U.S.A.	1,248	786	759	467	675	718	598
India	—	258	390	927	669	897	670
Western Europe	—	—	—	—†	—	1,614	1,362

* West Germany only.
† 104,000 tons.

In order to compare this evolution on the morrow of the Second World War and the situation before 1914, here is a table of the balance of trade (taking into account movements in both directions) of the chief areas of the world, in thousands of tons of cotton goods. (The minus sign stands for a favourable balance of trade, the plus sign for the reverse, i.e. an excess of imports over exports.)

	1913	*1925*	*1938*	*1950*	*1960*
Britain	−576	−377	−135	−59	+39
Continental Europe	−167	−158	−123	−104	−92
U.S.A.	−35	−37	−32	−71	−4
India	+249	+116	+67	−64	−82
China	+181	+127	+2	+4	−50
Japan	−3	−103	−234	−118	−151[8]

True, this evolution has been up to now largely neutralised by the increase in exports of capital goods and what are called "new" products (those of the electronics and chemical industries, synthetic fibres and plastics, optical and pharmaceutical products, etc.). But with the intensification of inter-imperialist competition and the increasing industrialisation of the "third world", more and more sectors will tend to pass into the category of branches of industry whose international outlets are shrinking, first in relation to their total production and eventually even in absolute figures.

The all-round cartellisation of industry

The strengthening of the trusts and monopolies and the dominion they wield over vast sectors of the economy widen the margin between the average rate of profit of the monopolised sectors and the average rate of profit of the non-monopolised ones. Competition between different sectors of industry becomes a dominant feature of capitalism. The non-monopolised sectors are compelled, in their turn, to undertake measures of organisation and regrouping, in order to protect their rate of profit. Their defence consists essentially in the formation of *trade associations* and *cartels*, which embrace the bulk, or even all, of the firms in a particular sector (often under the aegis of the most powerful firms in the given sector). Since the first decade of this century, but especially since the end of the First World War and during the great crisis of 1929–33, the all-round cartellisation of industry has proceeded by way of the formation of trade associations and groupings of employers in particular branches.

In *Germany* the number of cartels grew from 70 in 1877 and 300 in 1900 to 1,000 in 1922, 2,100 in 1930, and 2,200 in 1943.[9] In 1954 it was estimated that 12 per cent of all retail sales in West Germany were made at prices dictated by the supplier to the retailer, which is merely one of the forms of cartel agreement. This percentage comes to 95 per cent in the sewing-machine sector, 85 per cent in that of tobacco products, 75 per cent in photography, 60 per cent in the radio and TV sector, 45 per cent in drugs, etc.[10]

In the *U.S.A.* trade associations developed from 1911 (Bridge Builders' Society) and 1912 (Yellow Pine Association), with the special aim of communicating to all the members of a given association the information available regarding the costs of production and selling prices of their partners and fixing an "average price" for the particular sector of industry, not forgetting, of course, to include a "reasonable profit". The number of trade associations rose from 800 in 1914 to some 2,000 in 1919.[11]

This development was somewhat checked by a hostile decision of the Supreme Court in 1921 and 1923. The number of trade associations fell rapidly at that time. A revival occurred a few years later, encouraged first by another decision, this time a favourable one, of the Supreme Court in 1925, and above all by the National Recovery Act (N.R.A.) in 1933.

In all, 1,505 trade associations, some nation-wide, others regional, were again to be listed in June 1938.[12] The firm of Stevenson, Jordan and Harrison, administering about thirty trade associations, frankly declaring in a pamphlet dated 1938:

"We must change our laws regulating business, so that each industry will be given the right to form a firm organisation and so govern and control itself . . . Industry, when so organised, must have the right to schedule and regulate production, to allot production between plants and territories and to determine a fair price at which the products of the industry will be offered to the public. New capital desiring to engage in an industry in which the capacity is in excess of production schedules must first secure a certificate of convenience and necessity."[13]

In *Britain* the number of trade associations, the first of which was formed in 1881, reached some 500 in 1919 and some 2,000 in 1956, including 1,300 industrial trade associations.[14] At least a quarter of these associations engage in regulating the prices of their products, according to a P.E.P. study. The British commission for the investigation of monopolies and restrictive practices—a public institution—stated in a report published in 1955 that of the 300 trade associations which it had investigated, at least 16 impose cartel practices on their members, ranging from the fixing of prices to the boycotting of outsiders and the setting up of private courts to judge (sometimes with counsel for the defence!) firms which are accused of breaking the rules of the association.[15] The same report defines in unequivocal terms the origin and purpose of the development of trade associations:

"Before the First World War the main emphasis seems to have been on the prevention of retail price cutting and the method chosen was the collective enforcement of resale price maintenance by means of stop lists [of retailers who were not honouring the arrangement and to whom supplies were to be refused] . . . Some of the earlier arrangements broke down in the early 1920s under the stress of post-war economic difficulties, and the new agreements made later in that decade were designed to prevent each failure of collective action in the future . . . In the 1930s, again following a period of acute economic depression . . . the majority of the exclusive-dealing arrangements of which we have knowledge were introduced for the first time, while older agreements of a less complex character were often extended and elaborated along similar lines—frequently as a support for manufacturer's common prices."[16]

In *France*, apart from the cartels of monopoly-controlled large-scale industry, in the first place engineering and steel, industrial understandings developed especially in the years between the two world wars. They did not make a real leap forward, however, until after June 1936 and above all under the Vichy government, with its "organisation committees".[17]

Jacques Houssiaux states: "The second feature of the period [1900–50] relates to the all-round adoption of policies of alliance in the various sectors of economic activity. Before 1914, industrial alliances were the exception, though certain firms, for a variety of reasons and for varying periods, sometimes set up joint trading offices. After 1918, and especially between 1932 and 1936, the cartellisation of the economy proceeded by different methods, joint trading offices, consortiums, joint branches for distribution or working-up of products . . . Productive capacity continued to exceed available outlets and thereby the system of alliances became a stable feature of the economy: from temporary they became permanent . . ."[18]

Though not numerous in Japan before the crisis of 1929–30, from then onward cartels developed vigorously in that country. In 1931 they existed in eight important branches of industry, in which they laid down severe restrictions on production, and in 1936 they had spread to sixteen branches of industry, apart from those which were compulsorily cartellised. At the same time the number of exporters' associations increased from fourteen at the end of 1930 to eighty-five at the end of 1935, when they controlled all the main sectors. Finally, the retailers' guilds, the number of which rose from 656 in 1936 to 3,009 in 1939, functioned in effect as buying and selling cartels.[19]

After the temporary "decartellisation" of 1945, the movement was renewed even more strongly: "The legal hindrances having been almost completely removed, the list of cartels has rapidly grown longer during the last five or six years. Their number now exceeds 200. They supervise production, divide up the market, fix prices. Nearly all branches of industry are affected, and competition between the different firms within the big groups is regulated by them. They can now exist in all the cycles of economic life and even during the periods of prosperity. This is to be seen just now, when the cartels which were formed in 1958 to keep up prices are continuing to function when business has picked up again, and are even striving to bring about some rises in prices."[20]

Effective cartellisation has thus attained a remarkable extent, even in sectors traditionally regarded as the last refuges of "free competition", owing to the comparatively low degree of concentration which is typical of them.

Thus, in the textile industry, the Federal Trade Commission of the U.S.A. in March 1948 accused the Carded Yarn Institute of fixing a common price for its members' products, limiting production, eliminating trade discount and laying down a uniform system of selling conditions, in other words, of acting just like a cartel.

In the same way, in a report published on 14th April, 1954 by Britain's Monopolies and Restrictive Practices Commission, the Federation of Calico Printers was accused of having brought together the producers of 98 per cent of all the cotton printed in Britain and safeguarded this monopoly by fixing prices and allocating production quotas, as well as adopting measures aimed at restricting the growth of productive capacity.[21] In the building trade, in which a predominance of relatively small firms is typical, the situation in the U.S.A. is adequately described as follows:

"The large producers of mill lumber peg prices in the metropolitan area; associations set and maintain base prices for windows, window frames, stairs, banisters, door frames, cabinets and ornamental woodwork. Dealers and jobbers of plumbing supplies are often forbidden to sell directly to the job on penalty of being disciplined. Manufacturers of plumbing and other materials have cancelled trade discounts of jobbers who sell directly to the consumer or to the contractor. One lumbermen's association distributed membership lists to manufacturers and wholesalers who served certain areas and if the wholesaler sold to a non-member he had to pay a penalty or face boycott by council members."[22]

Stocking and Watkins[23] show that in 1939, on the U.S. home market, 47·4 per cent of sales of agricultural products, 42·7 per cent of sales of manufactured goods and 86·9 per cent of sales of mining products involved articles which were directly regulated by cartels, not to mention trade associations.

Parallel with the development of trade associations and all-round cartellisation economico-political employers' organisations have also developed, a form of super-cartel representing the entire capitalist class in relation to the state, the working class, the consumers and other interest-groups. Among these are the National Association of Manufacturers (N.A.M.) in the U.S.A., the Federation of British

Industries (formerly F.B.I. now C.B.I.) in Britain, the Vereinigung der Deutschen Arbeitgeberwerbände, later the Reichsverband der Deutschen Industrie (R.D.I.), and later still the Reichsgruppe Industrie in pre-1945 Germany, the Confédération Nationale du Patronat Français (C.N.P.F.) in France, and the Fédération des Industries de Belgique (F.I.B.) in Belgium, as well as the different associations of Chambers of Commerce.

These organisations not only intervene vigorously in social conflicts, election campaigns or public debates on economic policy. They are to an increasing extent consulted by governments in the actual working out of their economic policy.* At moments of crisis (economic crisis, war, etc.) they become semi-official organs for the practical guidance of the national economy. They even engage in international politics: on 15th–16th March, 1939 the Federation of British Industries and the Reichsgruppe Industrie made an agreement for collaboration in which they undertood to substitute in all fields the fixing of prices by mutual agreement in place of "destructive competition". These organisations realise in themselves, to a large extent, that increasing fusion of the state with the monopolies which is characteristic of the epoch of the decline of capitalism. For, as Brady points out, it is the monopolies that completely dominate these politico-economic organs of the capitalist class:

"As policy co-ordinator for this swiftly unfolding and cartel-like apparatus of trade associations, given an added fillip for more rapid extension of their powers and influence in the current national emergency, the Federation of British Industries takes on a new and far-reaching significance. Commanded at the top by a small coterie of officials who are drawn chiefly from large concerns or from concerns under the influence or control of the giants in their respective fields, and with both officials and controlling concerns bound together by an infinity of interconnections—personal, family and institutional—into a tightly meshed business oligarchy vested with political powers of propaganda and coercion, this is the British pattern in the making . . ."[25]

* The P.E.P. study already quoted had a lot to say about this "representative role" played by employers' associations. It declares that a certain number of under-secretaries of state concerned with production spend about half their time in direct or indirect discussion with trade associations!

A German specialist says, similarly: "Very often . . . consultations with representatives of the interests which would be affected by certain bills take place already at the preliminary stage, long before drafts of these bills are placed before the Cabinet or the legislature. Consultations also take place with the appropriate parliamentary commissions, and, when necessary, with the appropriate authorities in the Länder governments, even before the bills are tabled. But it is not infrequent for talks with interest-groups to take place before any others and especially for these discussions to be more thorough-going."[24]

Forced cartellisation

All-round cartellisation of industry is more and more the indispensible condition for the safeguarding of rates of profit in the non-monopolised sectors. But all-round catellisation is possible only if all the firms in a given sector agree to it, or can be obliged to agree through discrimination or boycott. If these measures of economic compulsion prove inadequate, especially if the recalcitrant firm happens to be the strongest in the sector, there is nothing to be done but to bring into play political compulsion, compulsion by the state. Since the crisis of 1929–33, intervention of the state as "regulator" of the economy, giving the force of law to decisions of private cartels and thus transforming them into forced cartels, obligatory alliances, etc., has manifested itself in most capitalist countries. It has once again revealed the nature of the state, as defender of the general interests of the bourgeoisie, if need be against a recalcitrant individual bourgeois.

There had already been precedents for this in *Germany*. At the request of the big trusts, a law of 1910 laid down compulsory cartellisation of companies producing potash. Then, in 1920, came the compulsory grouping of firms in the steel industry. After the outbreak of the great crisis, compulsory cartels were formed in the sugar industry and in shipping on the Elbe.[26]

It was, however, immediately after Hitler's coming to power that obligatory cartellisation was made general, by the law of 25th July, 1933. Then, on 27th November, 1934, groups were set up in each sector *(Reichsgruppen)*, most of them being led by one of the chief monopolies. These alliances possessed a far-reaching power of coercion, which included the right *ex-officio* to close down firms which did not conform to regulations or which were merely regarded as "redundant" in relation to the market's absorption-capacity.[27] The *Frankfurter Zeitung* of 22nd August, 1943 wrote that "the link, in terms both of persons and of office, between the cartels and the 'groups' goes very far . . . The authorities utilise both forms of organisation as organs for official and semi-official measures of rationing."[28]

After the revival of capitalist economy in West Germany in 1948, the government increasingly restored the practice of "authorised" cartels within the framework of a new law on cartels. Thus, milling and soap-making, for instance, were cartellised with the backing of the law.[29]

In the *U.S.A.*, immediately on Roosevelt's coming to power in 1933, the National Industrial Recovery Act (N.I.R.A.) was promulgated, by which the state empowered trade associations to work out and apply compulsorily "codes" which determined the permissible limits and forms of competition within each sector. Stocking and Watkins show that these codes were usually the work of "trade association officials or of dominant personalities within the industry."[30]

According to A. R. Burns, of the 677 codes promulgated, three included a direct restriction of production in a particular branch of industry, 60 an indirect restriction (ceiling of hours of work to be provided by the factory), 560 fixed minimum costs, 403 prohibited sales below cost of production.[31] Stocking and Watkins are thus right in claiming[32] that the codes "stabilised" business, under governmental constraint, in favour of the vested interests of the big firms.

In *Italy* a law on cartels dating from 1932 authorises the government to set up compulsory cartels in any branch in which 70 per cent of the firms (or firms which represent 85 per cent of production) ask for it. At the same time, the establishment of new firms was made subject to the granting of a government licence from 1933 onward, and applications for licences were often refused (37 per cent in 1939, 47 per cent in 1940, 59 per cent in 1941, 70·6 per cent in 1942).[33]

In *Britain* the Coal Mines Reorganisation Act of 1930, amended in 1936, set up an obligatory cartel in the coal-mining industry.[34] The Cotton Industry Board, set up in 1939, concerned itself especially with eliminating competitors who made a nuisance of themselves by cutting prices. In 1935 a compulsory cartel was set up in the sugar industry and in woodwork, and on 20th November, 1935 a compulsory cartel for the herring-fisheries was established.[35] When the great crisis of the cotton textile industry came in 1957–58 similar measures were taken, in order to ensure that productive capacity was reduced.

In *France* in 1934 the conservative deputies P. E. Flandin and Marchandeau tabled a bill for the setting-up of compulsory industrial groupings; it was to compel competitors to submit themselves to industrial groupings even if they did not wish to join them. Even before the bill had been voted on, a decree set up this régime of obligatory groupings, in the footwear industry, sugar-making, milling, herring-fishing and the big sea-fisheries.[36] After the defeat of 1940 the Vichy régime proceeded to make this system universal. The "organisation committee" of the various industries which were set up in 1940 "were often headed by the chairmen of big firms".[37] In a number of cases they merged with the cartels, and ended by mostly falling under the control of the trusts.[38]

In *Japan* a law of 1st April, 1931 explicitly authorises a certain number of manufacturers, being grouped in cartels in a given branch of industry, to impose their decisions on all the firms in this branch, under conditions convenient to the trusts. In January 1936 there were already twenty-four agreements of this kind, each of the cartels dominating an entire branch of industry. The agreements provided for the restriction of production, the fixing of selling prices, the determination of the volume of sales and the allotment of shares of the market between firms. In August 1937 the law on industrial associations was made general in its application. These associations now received full powers. They inspected and regulated production, fixed *ex-officio* the prices at which all their members had to sell their goods, and organised joint buying and selling, and even joint utilisation of industrial equipment. State control over their decisions was effected *a posteriori*. During the war, they undertook the allocation of raw materials in short supply and assumed more and more public functions.[39]

In October 1941 and August 1942 decrees were published for the carrying through of obligatory cartellisation, as proposed already in July 1940 by Prince Konoye's cabinet. Associations were set up in the chief branches of industry in order to regulate their entire activity. The heads of these associations were without exception the heads of the cartels which the entrepreneurs had themselves formed in the branches in question.[40]

In his article already quoted, Robert Guillain says of the period after 1950: "The anti-cartel commission formed in 1948 became little by little the regulator and organiser of cartellisation, and its powers even ended by passing into the hands of the strongest supporters of the movement, the offices of the Ministry of Trade and Industry. Increasing government control has been established over the economy, but very often the way it functions is neither impartial nor favourable to the cleaning-up of the market and the interests of consumers."[41]

In *Belgium* a law of 31st July, 1934, completed by a royal decision of 13th January, 1935, made cartels and industrial groupings compulsory for "outsiders", if the undoubted majority of the producing or distributing interests demands it", and if the state agrees to this demand for regulation. Between 1935 and 1952, ninety-five requests of this kind were submitted, sixty-five before 1942 and thirty after that date. One-third of these requests came from the distribution sector, and were all rejected. The other two-thirds came from various branches of industry, and of these about twenty were accepted, bringing several hundreds of firms under control and also very often subjecting them to a restriction of production.[42]

The bourgeoisie and the state

Compulsory cartellisation, the direct intervention of the public authorities in favour of threatened sections of the capitalist class, may seem a revolutionary heresy if one judges the historical attitude of the capitalists towards state intervention solely by the criteria of Adam Smith's theories or the creed of the free-trade school. However, the doctrine of *laissez-faire* is only a stage in the development of bourgeois ideology; it has meaning only for a particular phase of capitalism and for a quite limited geographical area.

At the risk of over-simplification, we can say that, when the bourgeoisie is weak it always seeks salvation in protection by the state, that is, in the hope that, through the agency of the public authorities it may succeed in benefiting from a redistribution of the national income which will reduce its risks and increase its profits. Only when the bourgeoisie is strong and full of confidence in its strength and its power to overcome obstacles by its economic superiority alone does it freely denounce all state-interventionism and seek to cut down to the bone the state's financial resources.

The evolution which leads from mercantilism and the strong state to liberalism and opposition to the strengthening of the army or acquisition of colonies is well known as regards Britain, France and Germany. Henri Hauser has recalled that the call for protectionism and pre-mercantilist doctrine appears in France as early as the sixteenth century, curiously mixed up with echoes of medieval corporations (that is, craft protectionism).[43] In German economic doctrine the direct link between the medieval ancestor and present-day capitalism is even clearer where protectionism is concerned.

There is no need to recall, moreover, how much the primitive accumulation of capital was fostered not merely by protection but also by the exploitation and systematic plundering of the state treasury. War supplies, public debts, luxury trades, tax-farming, colonial enterprises, all these were, in the sixteenth and seventeenth centuries the regular channels along which the incomes of various social classes were drained off to the advantage of the bourgeoisie and transformed into constituent elements of commercial, banking and industrial capital.*

Contemporary experience in the under-developed countries has curiously revived this historical experience, but in a completely changed context. Nevertheless, it is striking to observe to what extent the state and "statism" in these countries, far from being "anti-capitalist" in nature, are real foci for the rise of the bourgeoisie, the formation of capitalist enterprises and even of bourgeois families. The outstanding example in this connection is that of Japan, where modern industry was created from scratch by the state and at the state's expense, then sold for a song to the young industrial bourgeoisie:

"Initially, the state itself spearheaded the industrialisation process by pioneering and financing new undertakings over a broad front. In the decade after 1868 it built and operated railways and telegraph lines. It opened new coal mines and agricultural experimental stations. It established iron foundries, shipyards and machine shops. It imported foreign equipment and exports to mechanise silk-reeling and cotton-spinning. It set up model factories to manufacture cement, paper and glass. Many new western-style industries thus owed their start to government initiative. The state shouldered the early risks,

* See Chapter 3, particularly the passages referring to the role of the state as provider of forced labour for the manufactories.

pioneered technical advance, and patronised many private ventures which followed on its heels . . . Most of the state's industrial properties were soon disposed of at prices low enough to attract ready buyers."[44]*

Generally speaking, the industrialisation of a number of under-developed countries is today favoured by government initiatives connected with subsidies, gifts pure and simple, or extravagant guarantees according to private industries.

Thus the Sümer Bank (Investment Bank) of Turkey; the Bank Industri Negara and the Bank Rakjat Indonesia in Indonesia; the Industrial Finance Corporation in India and the institution with the same name in Pakistan; the Industrial Bank of Egypt; the Nacional Financiaria of Mexico and many other institutions of the same sort are the chief agencies of industrialisation in their respective countries. Except for the Indonesian institutions, which are virtually nationalised, these are mixed enterprises, in which half of the capital has been provided by the state and the other half by the private sector (or by international bodies), but under the state's guarantee.[46] In Brazil the state's share in the gross formation of capital varied between 30–39 per cent in 1948–52

The decisive role of the state guarantee in the development of private industry is stressed in a United Nations publication: "It is probable that some of the success in raising local capital which has been achieved by some development corporations is attributable at least in part to their links with government. It is argued by small investors, not always with justification, that the government is not likely to allow an industry sponsored by an official development corporation to fail. The apparent security of such an investment is sufficient to attract those who would not be interested in a pioneer industry promoted entirely by a private entrepreneur. More deliberately, governments have occasionally attracted private capital into approved industries by means of a guarantee of minimal dividends. The Bazalkot cement plant in Bombay, India, for example, was built by an ordinary limited liability company in 1948 after the Government had undertaken to guarantee a minimum dividend of 3 per cent a year for a period of five years."[48]

In fact, the birth of an industrial bourgeoisie in the under-developed countries is the combined result of state contracts, state encouragement in the form of guarantees, and plundering of the state treasury (particularly by corrupt civil servants and politicians).[49] It has been

* The same writer notes, moreover,[45] that the peasantry paid for this accumulation through increasing indebtedness and that primitive accumulation does indeed imply a transfer of income:

"High rents, interest on the mounting farm debt, and government taxes channelled a large share of agricultural income into the possession of financial institutions, urban landlords, and the state treasury."

alleged that Colonel Batista amassed the colossal fortune of 200 million dollars during his second term as dictator in Cuba, while the vice-president of South Korea under Syngman Rhee amassed 50 million.

This "statism" of the under-developed countries is closer to the economic "statism" of Europe from the sixteenth century to the beginning of the nineteenth (or to the "statism" of Central and Eastern Europe in the second half of the nineteenth century and the beginning of the twentieth) than to present-day "statism". The growing intervention of the state in the economy of the industrially advanced countries takes, indeed, a different form.

Like the "statism" of the under-developed countries, *it is basically capitalist, that is, it does not tend to the abolition but rather to the strengthening of the wealth and power of the bourgeoisie.* This differentiates it radically from the nationalisations which were carried out in the U.S.S.R. and also in Eastern Europe, China, North Korea, North Vietnam and Cuba after the Second World War. But unlike the "statism" of the under-developed countries, the increasing state intervention in the economy of the industrially advanced countries does not serve to foster the primitive accumulation of industrial capital, the *rise* of capitalist industry, but on the contrary to keep alive and ensure a certain amount of growth by a capitalism which is passing *from maturity to decay.* The former is the forceps which facilitates birth; the second is the scalpel which removes a tumour that reappears with disturbing regularity.

The state as guarantor of monopoly profits

Monopoly capitalism sees part of the normal machinery of the system more or less constantly stopped from functioning. Monopoly superprofits presuppose a certain restriction of production, and so of investment; but, the external outlets playing less and less the role of safety-valve after the First World War, and especially after the Second, the over-capitalisation of some sectors (and countries) exists alongside the under-capitalisation (and under-development) of other sectors and other countries.

Furthermore, technical progress demands initial investments of ever-increasing dimensions, and at the same time there is less and less opportunity for exploitation of it in a way which will be profitable fully and for a long period. The comparative plentifulness of capital thus exists side by side not only with under-developed countries but also with technical innovations which are not used productively. The normal functioning of the capitalist mode of production makes less and less possible the profitable use of all capital, which is the very *raison d'être* of capitalism. The system seems to have got stuck in a blind alley.

It is in this blind alley that monopoly capitalism turns more and more to the state, in order to secure by state intervention in the economy what the normal working of the latter can no longer secure for it. *The bourgeois state becomes the essential guarantor of monopoly profits.**

1. *The state takes responsibility for the unprofitable basic sectors of the economy.*

This taking over by the state results in a fall in the selling price of electric power or of fundamental raw materials, which in its turn makes possible a cut in costs of production, increase in competitive capacity and growth in the rate of profit in the sector of industry which produces heavy finished goods (machines, electrical apparatus, means of transport), the backbone of present-day big capital.

The nationalised companies are, moreover, dominated to a large extent by representatives of the private sector. This is clearly illustrated by the example of Britain:

Out of 272 seats on the boards of Britain's nationalised enterprises, 106 were occupied in 1956 by directors of private firms (of whom forty-nine were directors of private insurance companies and thirty-one were bank directors). Furthermore, there sat on these boards seventy-one technical directors of the nationalised enterprises themselves, whose extremely high salaries are a catalyst of bourgeois opinions (the chairman of the British Transport Commission receives £8,500 a year, the chairman of the National Coal Board £7,500, the chairman of the Central Electricity Authority £8,500, and so on).

The nationalisation of the coal-mines in Britain and France, the nationalisation of the electric power industry in these countries, the nationalisation of oil and electric power in Italy and of iron-mines, oil and electric power in Austria; the establishment of nationalised coal-mining in Holland, measures adopted either by governments of the left or by governments of the right, or of "national unity", all pursued the same end, that of ensuring lower costs of production for the transformation industries. They were accepted almost unanimously by the employers. If, later, one or other of these measures has formed the subject of public polemics by the bourgeoisie, this is usually to be explained by divergences of interest between quite definite sections and not by a general opposition to nationalisation as such.

Another typical instance of the same sort is that of the foundation of the Hermann Goering Werke in July 1937 in Germany. Its purpose was to exploit iron mines where the ore was too poor to give a profit. Private working of these mines would have necessitated an increase

* "This growing interference by the State in economic life thus results in *freeing* first the individual businessmen and eventually the *businesses* themselves from certain risks. Economically, this attitude is equivalent to a *principle of insurance.*"[50]

in the customs due on imported ore, which would have cut into the profits of the big manufacturing industries.

The foregoing does not in the least mean that nationalisation of sectors of industry necessarily corresponds *only* to the interests of the dominant groups of the bourgeoisie. It can, on the contrary, constitute a veritable *school of collective economy*, provided that the compensation payments to capital are reduced or cancelled, that it is not limited to sectors run at a deficit, that the representatives of private capital are removed from the management, that workers' participation in the management is ensured, or that this management is subject to democratic workers' control, and that the nationalised sectors are used by a workers' government for the purpose of all-round planning, especially to achieve certain objectives of high priority, either social (e.g. a free health service) or economic (e.g. full employment).

2. *Refloating of capitalist enterprises in difficulty*

This phenomenon is often accompanied by a "re-privatisation" of enterprises which were nationalised when they were not profitable. In both cases it is a matter of *nationalising losses* while *restoring profits to private ownership*.

Thus, after the big bank crash in 1931, the Weimar Republic acquired 90 per cent of the shares of the Dresdner and Danat banks, 70 per cent of those of the Kommerz und Privatbank, 35 per cent of those of the Deutsche Bank; in 1937 all these shares were handed back to the private banks, as soon as they were making good profits.[51]*

Similarly, the Nazi régime handed over to the private sector its shares in the Vereinigte Stahlwerke, various shipyards, and shipping companies such as Hapag, and restored to private ownership municipal gas and electricity companies.[53]

3. *Transfer to private trusts of public property or of enterprises built with public money*

The most flagrant case is that of the enterprises built during the Second World War by the U.S. Government. Out of a total of new plans usable in peacetime valued at 11·5 billion dollars, 77·4 per cent were managed by the big trusts, which had first option rights when it came to selling them.[54] Most of these plants were in fact sold to the trusts in question.

Typical are the case of the Geneva steel works, handed over to the U.S. Steel Corporation, and that of the synthetic rubber factories, mostly handed over to the rubber trusts (Goodyear, Goodrich, U.S. Rubber, Firestone) and oil trusts (Esso Standard, Gulf Oil, Texas Oil

* Professor Ritterhausen states that this refloating obliged the government to liquidate reserves of gold and foreign exchange, thus causing long-term inflation.[52]

Company, etc.). Some of these factories were sold at a fraction of the cost of construction. Thus, the butane factory at Kobuta (Pa.) cost 49 million dollars to build, and went to the Koppers Company for two million; the butylene factory at Baton Rouge (La.), which cost 25 million dollars, went to Esso Standard for 15 million, etc.[55]

In Britain the factories built during the war suffered the same fate. Nazi Germany worked out a particularly subtle system for financing the expansion of firms regarded as being "indispensable for national defence" by means of public or private funds giving no right to shareholding: the system of *Gemeinschafts-finanzierung* (community financing).[56]

In the same connection the case of the nuclear power industry in the U.S.A. calls for mention. From the start of the governmental nuclear research programme, carried on exclusively at public expense, a dozen trusts were associated with this work and were thus able to accumulate considerable knowledge which gave them an enormously privileged position in relation to their competitors, and all for nothing! These trusts were E.I. Du Pont de Nemours, Allied Chemical and Dye, Tennessee Eastman, Dow Chemical, American Cyanamide, Monsanto Chemical, Kellex Corporation, Westinghouse Electric, Carbide and Carbon, and General Electric (the latter managing the Handford factories over a period of several years).[57]

In 1954 the Nuclear Power Act practically transferred a sector of the public domain worth 12 billion dollars—all the technological and scientific information in the nuclear sphere—to private trusts which could turn it into money and capitalise it as they pleased:

"The Atomic Energy Commission is directed to assume a major role in assisting the acquisition of atomic knowledge by others. Stripped of euphemism, this means that a major part of the real pioneering work in the field will probably still be done at government expense, while 'private enterprise'—relieved of substantial risks and rewarded with ample 'incentives'—will probably get most of the benefits."[58]

The same writers describe moreover how this system actually functions. The nuclear material put into a private atomic reactor remains the property of the U.S.A., as does the material extracted from the reactor. The Atomic Energy Commission thus "sells" the "nuclear fuel" and "buys back" the plutonium "ashes".

"Therefore, as the Federal Power Commission informed Congress, the government 'may pay more for the ashes than it charges for the fuel'. Thus, the government may subsidise the electric utilities and others developing atomic energy by paying their operating costs. Furthermore, there is no provision for recapturing any excess profits earned in the process."[59]

4. *Direct or indirect subsidies granted to private firms*

The list of direct and indirect subsidies, including exemption from taxes and other fiscal privilege, granted by governments to private firms in the principal capitalist countries during the last thirty years would by itself fill a large volume. We shall confine ourselves to mentioning a few of the most typical examples.

In the U.S.A. the government grants permanent subsidies to airlines and shipping lines and also for shipbuilding. According to a statement by the U.S. Post Office, the postal rebates allowed to five big weeklies or reviews cost the government 25 million dollars a year.[60] Accelerated depreciation, based on "certificates of necessity for national defence", made it possible for 20 billion dollars of investment carried out by American industry between 1950 and 1954 to be effected under conditions of large-scale tax-reduction. Ninety per cent of these investments were made in big enterprises.[61] The extra profits thus realised through exemption from taxes amount to several billion dollars.

Similarly, the law on the "exhaustion of natural resources" which enables the big oil firms to keep back part of their income in order to carry out searches for new oil resources, has increased the net income of these firms by several billion dollars, through exemption from taxes. It brings them in at present between 700 and 750 million dollars *a year*.[62]

As regards war supplies, these are provided under contracts which guarantee substantial profit-margins to the trusts. Thus, during the war in Korea, the Detroit Ordnance Center bought 1,000 generators of a certain type from the Chrysler Corporation, at a price of 77·20 dollars each, instead of buying them from Electric Auto-Lite, who had made them and sold them to Chrysler for . . . 52 dollars each! Under this strange régime of "free competition", Electric Auto-Lite itself had refused to supply them directly to the state for less than 87 dollars each![63]

5. *Explicit guaranteeing of profit by the state*

This guarantee is of particularly great importance where supplies to the state, public works and regulation of prices are concerned, increasingly important features of the economy in the age of capitalist decline, marked by an expanding state sector and by the increasing importance of the armaments industry.

The entire economic recovery of Nazi Germany was financed by bills *which the state guaranteed would be honoured*. This means that all the entrepreneurs working for recovery had their profits guaranteed to them.[64] When the Third Reich developed the synthetic rubber industry it made with the firms involved what were called " 'profitability guarantee contracts' (*Wirtschaftlichkeitsgarantieverträge*) which guaranteed costs (including a margin of 'reasonable' profits) and a certain volume of sales. Because of the newness of the process and the magnitude of the physical plant involved, obsolescence and depreciation represented a prominent element of cost; allowance was also made for amortization of the capital investment represented by the credits."[65]

When the Hermann Goering Werke was founded, 130 million RM of shares were sold to banks or "economically interested circles"; they paid a dividend guaranteed by the state.[66] The various Nazi decrees fixing prices (notably the Ordinance of 26th November, 1936, that of 21st November, 1938 on public contracts and that of 4th September, 1939 on wartime economy) all provided explicitly or implicitly for a "reasonable profit".[67]

In the U.S.A., for 25 years, the oil and sugar industries have been practically assured of a permanent profit, thanks to the policy of restrictions on production enforced by the state authorities.

"Every month the Bureau of Mines estimates probable demand and state regulative commissions tell oil producers in their respective states how much crude oil they can bring out of their wells. The scheme is intended to assure that the oil, brought above ground, shall (when imports are added) correspond substantially to the American demand. The plan has worked successfully for two decades. The American sugar industry follows somewhat the same plan, though the mechanics are different; since supplies of raw sugar are chiefly outside the United States, the adjustment of supply to demand is accomplished by the Secretary of Agriculture, who has been given power to fix the quota of raw sugar which may be imported."[68]

The aim of this policy of restricting oil production is obviously to ensure that the big oil trusts get "reasonable" prices and profits.[69]

For everything relating to the production of armaments or work on government account, the U.S.A. has many times provided "guarantee of private debts, private investments, returns on private capital and private contracts without a commensurate reduction of prices to the public. The effect is to socialise the risks of private capitalism without a corresponding diminution of returns."[70]

The new legislation on the export of private capital provides for a guarantee by the state or by semi-public organs (the administrations of the E.C.A., M.S.A. or F.O.A.) for private capital invested abroad. This system was used, for instance, to guarantee the purchase of 50 per cent of the shares of the German rubber trust Phoenix Werke by the American Firestone trust.* When price-freezing was reintroduced in the U.S.A. during the "Korean war boom", the Office of Price Stabilisation laid it down as a rule, on 18th February, 1952, that the prices

* A large number of loans granted by the World Bank of Reconstruction and Development to private firms were guaranteed, wholly or in part, by governments or semi-public institutions.

frozen had to include a profit margin of 10 per cent on net capital, before tax.

A new aspect of the state guaranteeing of profits is *export risk guarantee*. Intensified international competition implies that big international orders, especially for capital goods, but often also for consumer goods, are nearly always placed on credit. The majority of governments cover a large proportion of the resultant risk, and allow similar insurances to be given by semi-public institutions. The *Wirtschaftsberichte* of the Rhein-Main Bank[71] give the following table of legislation in force in this connexion in four countries of Western Europe in 1953:

> *German Federal Republic:* credit insurance at very low rates: 0·4 to 2·5 per cent guarantees against loss up to 60 to 85 per cent.
> *France:* insurance against loss, including the consequences of monetary and political "disasters" in the importing country, to the amount of 80 per cent; the insurance includes the risk of "advertising losses".
> *Britain:* state cover for risks, up to 85 to 90 per cent; insurance premiums of 0·25 to 0·50 per cent. Here too the risks covered include advertising expenditure, contract charges, removal charges, etc.
> *Holland:* state insurance of export credits; cover of 75 to 90 per cent of possible loss; the state further guarantees to the exporter the restitution of 50 per cent of his costs incurred in making enquiries, establishing contact, travelling, advertising and storing goods in the foreign country.

Increasing fusion between state and monopolies

The state thus becomes to an increasing extent an indispensable instrument for the monopolies. The realisation of profit—and not just the average profit, but the super-profit which they regard as their right—can no longer depend on the mere working of "economic laws"; the state's economic *policy* must, when necessary, render these very "laws" harmless,* when their operation threatens the profits of the monopolies. This close co-operation between the monopolies and the state is not at all the result of "submission of the economy to the state". On the contrary, it expresses the submission of the state to the monopolies, through increasing personal links between the leading figures in the state and the heads of the big monopolies, in person.

The United States is the country where this fusion between the state and the big monopolies has attained its highest point. The majority of the politicians occupying key positions in the American economy have, for a long time now, been big business-men.

The successive heads of the War Production Bureau have been Knudsen, of the General Motors trust; Donald Nelson, of the Sears Roebuck trading trust; Charles A. Wilson, of the General Electric

* Wage-freezing always occurs in periods of full employment, never in periods of crisis!

trust. Among the chief men of the E.C.A., Paul Hoffmann was a former chairman of the Studebaker motor-car trust and W. Averell Harriman one of the biggest railway magnates of the United States.

Edward R. Stettinius, Jr., who administered Lease-Lend (predecessor to the Marshall Plan) before becoming Secretary of State in 1945, was a former vice-chairman of the United States Steel Corporation. Robert A. Lovett, who was originally the mentor and right-hand man of General Marshall as Secretary of State, was a typical representative of Wall Street. He was made head of one of the biggest railway trusts, Union Pacific, in the interval between two government appointments. Another member of the Truman administration, the man in charge of finance, John W. Snyder, was likewise a typical representative of Wall Street, having been vice-chairman of the First National Bank of St. Louis. His predecessor, the banker Henry Morgenthau, Jr., was soon afterwards appointed chairman of the Modern Industrial Bank. James Forrestal, Secretary for the Navy, then Defence Secretary, between 1941 and 1949, was a banker, head of the powerful investment firm of Dillon, Read and Co. Louis A. Johnson, Forrestal's successor as Defence Secretary, was head of Consolidated Vultee Aircraft, whose B.36 and B.45 aircraft have become the foundations of American strategy.[72] C. Wright Mills[73] has analysed along similar lines the leading men of the Eisenhower administration.

In *Britain*, "Simon Haxey", in his book *Tory M.P.*[74] notes that of the 415 M.P.s who supported the "National" (Conservative) Government before 1939, 181 held 775 directorships in joint-stock companies. Lord Runciman, many times Minister between 1908 and 1937, was a director of one of the big six banks of Britain, the Westminster, of the London, Midland and Scottish Railway, and of a number of other trusts. His father left him an inheritance of £2,400,000. Viscount Horne, Minister of Labour, President of the Board of Trade and Chancellor of the Exchequer between 1919 and 1922, was a director of Lloyds Bank; Lord Stanley, a Minister until he died in 1938, was a director of Barclays Bank; Sir John Anderson, a Minister in the War Cabinet and in the Churchill Government of 1951, was a director of the Lever Bros. trust. Harold Macmillan, a Minister in several Cabinets and eventually Tory Prime Minister, was a director of a big railway trust and continued to own the great publishing house that bears his name; the three Conservative Premiers of the inter-war period, Bonar Law, Baldwin and Neville Chamberlain, were connected with the steel industry, and particularly with the Vickers trust. L. S. Amery, a Minister in the Chamberlain Cabinet, was a director of the Cammell Laird arms trust.

In December 1938 the British Government appointed a six-man committee to supervise the carrying-out of the rearmament programme. The committee consisted of six heads of monopolies, namely:

J. S. Addison, managing director of the Courtauld synthetic textiles trust;
Sir George Beharrell, chairman of the Dunlop rubber trust;
F. F. B. Bennett, director of Imperial Chemical Industries;
J. O. M. Clark, chairman of J. and P. Coats, Ltd (thread);
Sir Geoffrey Clarke, director of P. & O. Steam Navigation;
F. D'Arcy Cooper, chairman of Lever Bros. and Unilever.

In *Germany*, according to Neumann, among the 173 heads of the "Reichsgruppen", "Transportgruppen", "Wirtschaftsgruppen" and "Industriefachgruppen", there were 13 representatives of public institutions, 9 officials, 93 big capitalists and 56 persons whose background is not known. The head of the Reichsgruppe Industrie was Wilhelm Zangen, head of the Mannesmannwerke steel trust and member of the board of the A.E.G. electric apparatus trust. The Reichsverband for coal, set up on 20th March, 1941, was run by a group of big monopolists: Von Bohlen, Flick, Knepper, etc.[75] When in 1943 Speer organised Hauptausschüsse ("general committees") to supervise all industry the heads of these bodies were mostly representatives of big trusts, e.g. the aircraft construction section was headed by Frydag, representing Henschel Flugzeugwerke; the naval shipbuilding section by Blohm, of Blohm u. Voss shipyards; the tank-building sector by Rohland, of Vereinigte Stahlwerke; the aircraft equipment sector by Heyne, of A.E.G.; the mechanical engineering sector by Mauterer, of the Hermann Goering Werke; the chemical warfare sector by Ambros, of I. G. Farben; the military and general equipment sector by Zargen of Mannesmannwerke; the optical and precision engineering sector by Küppenhender, of Zeiss; the electro-technical sector by Bauer, of Siemens.

In *France*, when the Vichy "organisation committees" were dissolved, the Government handed over all their archives to the employers' organisations. In 1946 the latter set up a "centre for administrative and economic studies" which made it its business to "organise" the elections. In 1951 a list was circulated in the French Assembly of "the 160 deputies who were helped in their election campaign by the Rue de Penthièvre". "The best known representatives of the trade associations are confident of obtaining easily, often after one short interview, administrative decisions which are "made to measure" from industry's point of view", writes Ehrmann. And so on.[76]

The direct participation of the big trusts in "day-to-day" politics —a phenomenon the beginnings of which are to be found at the very start of this century, or, in the case of certain big financiers, even during last century—has been codified by a number of monopolies, in Europe as well as in the U.S.A. The Gulf Oil trust declared recently:

"Gulf and all other American firms are in politics up to their necks, and we have to start to swim in this element, or we shall drown in it."[77]

The Hamburg weekly *Die Zeit* wrote, no less suggestively:

"Tourists are shown the Parliament building in Bonn, and told: 'Here the laws are made'. They are shown the Schaumburg Palace and told: 'Here is the office of the Federal Chancellor; from here the country is governed'. They are perhaps also shown, as they walk along Koblenzstrasse, this or that big building erected by a powerful trade association. But undoubtedly nobody tells them: 'In these buildings and others (some of which are not very impressive to look at) sit individuals who, though, of course, they do not make the laws, have to ensure that everything that is done conforms to the wishes of their principals'."[78]

It will be realised that, given these conditions, Professor Galbraith's theory of "countervailing power", according to which a sort of equilibrium prevails between the state and the trade unions, on the one hand, and the employers' associations on the other, is quite illusory. This equilibrium exists only in order to prevent any profound change taking place in the established conditions of ownership and power. The result of this equilibrium is *the status quo of the monopoly structure*, each reform secured by the workers' organisations being more or less rapidly neutralised by advantages given to their class adversaries.

The (bourgeois) experts who are best-informed readily recognise this fact, moreover. Thus, Jacques Houssiaux: "Present-day examples show that countervailing powers are in reality incapable of limiting the monopoly power of the big firms. Some measures amount to a mere transfer of authority . . . others set up new institutions which compete with big business but are closely-related in their nature . . . Others, finally, lead to *a rapid power-osmosis between the big firms and the institutions charged with supervising them*: the experience of the organisation committees, after 1940, recalls this. The effectiveness of anti-capitalist measures is thus legitimately subject to doubt."[79] And Professors Adams and Gray have described even more clearly the nature of this "osmosis": "Countervailing power is, at best, a supplement to—rather than a substitute for competition. It cannot long survive in the absence of competition, nor does its operation afford any clear and administratively feasible guidelines for public policy, and moreover, countervailing power is frequently subverted by vertical integration, collusion and top-level financial control. The suggestion that these inherent defects can be remedied by governmental intervention on behalf of the weaker party . . . is quite unrealistic. It rests on the untenable assumption that government is an autonomous, monolithic, self-contained organism—that political power always checkmates economic power by intervening on the side of the underdog. Unfortunately, this is no more than a fond hope. Experience indicates that economic interest groups are today largely politicised units, making their claims upon and through the institutions of government. Experience demonstrates that all too often economic power attracts, even demands, the support of political power . . ."[80]

C. Wright Mills has shown in masterly fashion, in *The Power Elite*, that for the United States of today the words "too often" must be replaced by the word "always". And Professors Adams and Gray themselves explain, moreover, why this is so:

"Those who seek to consolidate economic power must, if they are to succeed, control public opinion, the agencies of social communication, and government. Such controls are as essential to the establishment and maintenance of monopoly as control of the market. And herein lies the ultimate danger of unchecked monopoly power—the prospect that it might eventually dominate the entire society and suppress all freedom."[81]

Self-financing

The power of financial capital originates, on the one hand, in the concentration of industrial and banking capital, and, on the other, in the growth of the average size of big firms. Large-scale industry depends more and more on bank credit. This dependence implies the penetration of representatives of banking capital into large-scale industry.

The development of monopoly capitalism and its culmination in the period of capitalist decline, its increasing fusion with the state machine, alter the conditions under which finance capital wields power.

In the backward capitalist countries and some of the old capitalist countries (Belgium, Switzerland, to some extent France), finance capital remains based on the dominant position of a small number of banks and financial groups in relation to industry and the national economy as a whole. In some of the big advanced capitalist countries, however (the U.S.A., Britain, West Germany, Italy), the situation is defined rather by the interpenetration of industrial and finance capital: a few big trusts dominate whole sectors of industry, including banks which they control, and certain banks hold key positions in the national economy.

This transformation in the nature of monopoly capitalsm is the direct outcome of two basic phenomena of the age of capitalist decline: the capitalisation of super-profits and the comparative absence of fresh fields of investment for these capital surpluses. Self-financing made its appearance after the First World War, which brought about a record rise in undistributed profits (4·3 billion dollars in 1919 in the U.S.A., an amount not to be reached again before the Second World

War).[82] The trusts no longer suffer from a shortage of capital but rather from an excess of it. They resort less and less to obtaining advances from the banks.[83] Thus, they can no longer be controlled by banks supplying them with investment credit. They themselves create their own banks, in order to ensure that their available surpluses bring a "return". All the funds needed for depreciating their fixed capital and renewing it technically, as also for the expansion of their productive apparatus, are accumulated in advance and deposited in safe reserves. Self-financing is the name given to the financing of the expansion of the capital of big firms not out of credit, whether private or public (the capital market), but out of these reserve funds of the big trusts.

The practice of self-financing, which, in the case of big joint-stock companies, began to appear during the First World War and spread more and more after 1920, was accompanied by several phenomena of the highest importance for the study of the evolution of capitalism in our era.

The big monopolies mostly follow a policy of voluntary restriction of *distributed profits*: the bulk of the profits are deposited in reserve funds, in order to enlarge productive capacity, or are transformed into capital. In Japan, 85 big companies, with a capital of nearly 5 billion yen, distributed, in 1940–42, 611 million in dividends and put aside 623 millions as reserves. This policy is favoured by the law in a number of countries, which accord partial relief of taxation to undistributed profits.

These practices are to some extent to the disadvantage of small and medium shareholders who have to live on the current income from their shares (rentiers, etc.). For the big shareholders and heads of monopolies, however, who, besides their dividends, allot themselves substantial attendance payments, commissions, directors' fees, expenses, etc., this policy means that they gain in every way. Above all, it increases the amount of capital available to them, the size and possibilities of profitable use of this capital. It thus means only yet another stage towards the centralisation of capital. The property and income of a large number of small and medium-sized capitalists are subjected to the control of a few big capitalists and placed at their free disposal:

"It may be to the interest of the big shareholders to leave their share of profits in the business, rather than draw big dividends which would be subjected to proportional taxation and (or) to a progressive income tax. Among the shareholders, these are the only ones who can exercise a real influence on the determining of dividends, and the development of taxation during the last forty years has certainly encouraged them to use this influence so as to keep dividends at a moderate level."[84]

Self-financing operates in practice through the growing size of the *capital reserves* of the trusts, either in the form of money capital or in that of new equipment or stocks purchased and not included in the balance sheets. These reserves are officially transformed into capital when an increase in the latter is decided on, often by way of distributing free shares to old shareholders.

In order to estimate the extent to which trusts have become richer in the age of self-financing it is thus more important to follow the evolution of their capital, their assets, than that of their distributed profits. Only in this way can one get an idea of the fantastic super-profits realised. Thus, in *Germany*, after the fixing of a limit of 6 per cent on dividends (law of June 1941), and thanks to the reserves accumulated since 1933, 1,466 companies increased their total capital by distributing bonus shares, from 8 to 12·5 billion RM.[85] The evolution of the assets of the biggest German trust, I. G. Farben, is even more significant:

		In millions of RM		
	Nominal Capital	*Total assets*	*Shares in other companies*	*Profits (inc. declared reserves)*
1933	650	1,458	289	310
1938	680	1,624	310	347
1940	733	1,923	400	390
1941	760	2,332	691	483
1942 (1st half)	900	2,632	720	517
1942 (2nd half)	1,360			

When the currency reform took place in Germany in 1948, 10 RM were exchanged for 1 DM. But firms had the right to estimate as they chose the value of their new capital. Most limited companies transformed their capital on a basis of 1 RM = 1 DM. They thus capitalised the huge reserves constituted by means of the super-profits obtained through carrying over goods which had been made in return for valueless RM paid out to the employees but which were sold only after the currency reform.*

The amount of these super-profits, as of the profits resulting from the "liberal" price policy permitted by the government after the currency reforms, appears particularly scandalous in a case like that of I. G. Farben. This trust had a capital of 1·4 billion RM: over half of its fixed property was in East Germany; all this property was represented in the new statement only by one symbolic DM. Yet, nevertheless, the capitalisation of exceptional super-profits made possible the maintenance in value of the nominal capital of this trust!

* These figures should be compared with those of the revaluation of nominal capital which took place after the stabilisation of the RM in 1923–24, when there had been a real material loss as a result of the war. Ninety-nine big firms revalued their capital in September 1924, reducing it to 560 million RM, as compared with 650 million in 1913.

Certain heavy-industrial trusts revalued their capital by replacing every 1 RM with 2 DM and more; thus, Klockner and Mannesmann applied the ratio 1 : 2, and Harpener Bergbau even the ratio 1 : 3·7. Whereas a pensioner or a life assurance policy-holder received 100 DM for 1,000 RM accumulated by his savings, a shareholder in Harpener received 3,700 DM for shares formerly worth 1,000 RM. So much for your "equality of opportunity", created by "free enterprise"!

The enrichment of the American trusts is similarly to be seen most of all in the increase in their assets which emerges from the following table (allowing, however, for the fact that in purchasing-power a dollar of 1958 was worth only half a dollar of 1935):

	In millions of dollars		
Industrial companies	*1935*	*1945*	*1958*
Standard Oil of New Jersey	1,894·9	2,531·8	7,830·2
General Motors	1,491·9	1,813·9	7,498
U.S. Steel Corp.	1,822·4	1,890·8	4,372·8
Ford Motors Co.	681·6	815·5	3,347·6
Gulf Oil Corp.	430·2	652·8	3,240·6
Pennsylvania Railroad	2,863	2,224	2,991
E. I. du Pont de Nemours Co.	581·1	1,025·5	2,755·6
Texas Corp.	437·8	833·5	2,729·1
New York Central Railroad	2,356	1,735	2,625·9
Standard Oil of Indiana	693·5	946·1	2,535
Financial companies			
Metropolitan Life Insurance	4,325	7,562	15,536·1
Prudential Life Insurance	3,129	6,356	13,919·1
Bank of America	1,277	5,626	10,639·1
Equitable Life Insurance	1,816	3,849	8,875·7
Chase Manhattan Bank	2,898	7,452	7,809·8
First National City Bank, N.Y.	1,881	5,434	7,802·6
New York Life Insurance	2,244	3,814	6,424·8
John Hancock Mutual Ins.	931	1,838	5,163·3
Northwestern Mutual Ins.	1,072	1,878	3,727·5
Manufacturer Trust Co.	673	2,693	3,348·2

The 56 companies which in 1948 possessed property of a billion dollars or more had assets amounting to 129·2 billion dollars, or more than all the 225,000 industrial manufacturing firms in the U.S.A. These assets represented at that moment a value of 45·237 billion French francs, or more than double the total wealth of 45 million Frenchmen! *

In 1958, the 50 American companies with the most property—ranging from 17·7 billion dollars in the case of the American Telegraph and Telephone Company to 1·527 billion in that of the Crocker-Anglo-

* In 1950, M. René Pupin estimated that this wealth amounted to 19,600 billion French francs.[86]

National Bank—had, in all, assets of 206·3 billion dollars or more than 93,000 billion French old francs.

A number of facts confirm *the present interpenetration of the big trusts and banks in the chief capitalist countries.* In *the United States* the heads of big banks are still members of the boards of big monopoly trusts. Thus, Alexander C. Nagle, until recently president of the First National Bank of New York, is on the boards of the U.S. Steel Corporation, the New York Central Railroad and the Prudential Insurance Company, all of which are controlled by the Morgan group. On the other hand, Alfred P. Sloan, Jr., chairman of the board of General Motors (Du Pont group), is on the board of the J. P. Morgan and Co. Bank, and Richard K. Mellon, of the group which controls the Aluminium Company of America, is chairman of the board of the Mellon National Bank Trust Company, etc.

In *Britain,* D. J. Roberts, Lord Glenconner and Viscount Chandos represent respectively the National Provincial Bank, Hambro's Bank and Alliance Assurance Ltd. on the board of the biggest British trust, Imperial Chemical Industries. On the other hand, the vice-chairman of I.C.I., S. P. Chambers, is a member of the board of the National Provincial Bank, and the chairman of the board of I.C.I., Sir Alexander Fleck, is a member of the board of the Midland Bank. While big trusts such as Vickers, British Petroleum, Cunard Line, have their representatives on the boards of a number of banks, the big five banks are in their turn represented on the boards of about thirty of the largest British trusts.

In *West Germany,* Hermann Abs, chairman of the board of the Deutsche Bank, is on the boards of about thirty big industrial companies, and has been chairman of several (e.g. Badische Anilin, Vereinigte Glanzstoff, Dortmund Hoerder Hütten Union, and Daimler-Benz). Carl Goetz, chairman of the board of the Dresdner Bank, has similarly been chairman of the board of the Rheinisch-Westfälisches Elektrizitätswerke A.G., of Degussa, of Agfa, Dynamit A.G., of Adlerwerke, etc. On the other hand, we find on the board of the Dresdner Bank representatives of Blohm and Voss (shipyards), A.E.G. (electrical machinery), Dortmund Hoerder Union (steel), Brown Boveri (electrical machinery), Klockner-Humboldt-Deutz (mechanical engineering), Farbwerke Hoechst (chemicals), etc.

The growing importance of self-financing is shown most clearly in the smaller part played by investment credit and resort to the capital market. In *Nazi Germany* the total of undistributed profits rose from 175 million RM in 1933 to 1,200 million in 1935 and 3,420 million in 1938, in the case of joint-stock companies alone, to which must be added one billion RM for the reserves of other companies. Profits distributed as dividends amounted to no more than 1,200 million RM.[87] After the currency reform of 1948, self-financing, which accounted for only 17 per cent of industrial investments in 1926–28,[88] increased from 39·7 per cent in 1948–49 to 54·5 per cent in 1950, 63·9 per cent in 1953, 64·9 per cent in 1955, and 66·1 per cent in 1957.[89]

In *Britain*, in 1952, undistributed company profits amounted to £1,045 million, whereas the fixed investments of these companies came to only £631 million.[90] In the following years, undistributed profits continued regularly to exceed the total of fixed investment and even the total of net investments.[91]

In the *United States*: "In November 1953 the economists for the National City Bank made an excellent brief study of the use and sources of capital . . . They calculated that in eight years (1946 to 1953 inclusive) an aggregate of 150 billions of dollars had been spent in the United States for capital expenditure, namely modernising and enlarging plant and equipment . . . Sixty-four per cent of the 150 billion came from 'internal sources', that is to say, receipts of the enterprises which had been accumulated and not distributed as dividends."[92]

A writer who has studied the evolution of self-financing in the United States observes: "Since 1939, undistributed real profits have formed a much more important source of financing than the contribution of the capital market. Since that date, self-financing has always provided over half of the total of the funds under consideration, over 60 per cent in the years 1948–50, the maximum having been 90 per cent in 1943 . . . In this way, the structure of financing in this post-war period differs from what it was in the first such period."[93]

In *France*, Maurice Malissen[94] reports that since the Second World War, self-financing has been more important than contributions from outside in the financing of firms, and that as a rule it exceeds 50 per cent of their net investment.

The more reduced role played by bank capital is likewise shown in the huge accumulation of securities deposited with insurance companies. In several countries the figure exceeds that for bank deposits. The insurance companies thus control a considerable share of the available capital; they accumulate substantial shareholdings in industry, while being at the same time among the chief purchasers of government bonds. The increase in the wealth of the insurance companies and their advance as compared with the banks is in itself an indication of the ageing of the capitalist régime, in which the chief preoccupation has become *security*, that is, conservation, and is no longer *expansion*.

In the *United States*, the biggest insurance company, Metropolitan Life, had in 1958 a capital of 15·5 billion dollars. Five hundred and eighty-four insurance companies together possessed 80 billion dollars in 1954. This enrichment of insurance companies is a comparatively recent phenomenon: between 1932 and 1958 their capital quadrupled.

In *France*, since 1932 the 90 directors of insurance companies have at the same time provided:

7 regents of the Bank of France;
227 bank directors;
180 bank directors;
54 railway company directors;
257 directors of industrial and commercial firms.[95]

In *Britain* the insurance companies, on the eve of the Second World War, put £50 to £60 million every year on the capital market, or 35 per cent of the total.[96]

While in 1850 the American banks held 82 per cent of the capital of all American financial concerns, and 67·7 per cent in 1900, this percentage fell to 52·7 per cent in 1949, while that of the insurance companies and pension funds rose from 8 per cent in 1950 to 12·3 per cent in 1900 and 27·7 per cent in 1949.[97]

This phenomenon, like that of the growing importance of *institutional savings* (social insurance funds, funds of semi-public bodies, etc.), is, moreover, a consequence of self-financing (as also of a certain evolution in trade) rather than the cause of it. It is because the capital market no longer has its former importance that other forms of saving are preferred by small rentiers, etc. The importance of building society credit has also grown to a marked degree.

Overcapitalisation

The changes in the structure and functioning of monopoly capitalism which follow from the practice of self-financing are even farther-reaching than we have indicated up to now. Self-financing actually alters the system of *monopoly prices and profits* and so brings about the phenomena of overcapitalisation.

Self-financing results from monopoly super-profits which can no longer find new fields for investment. But the more the market shrinks, relatively, while the quantity of fixed capital grows, the greater becomes the danger that it will not be possible to put capital to profitable use, without hindrance, during a certain period. The more the difficulty becomes apparent of finding profitable use for the mass of capital accumulated, the more do the monopolies strive to guarantee their super-profits, by increasing the margin of *immediately realisable* profits. These profits are included in the costs of production, and, in so far as a monopoly market prevails, they are both foreseen and guaranteed in advance: "Profit is no longer contingent; it has become just as predictable as any other element in the cost of production. Risk vanishes completely, thereby proving that it is in no way the origin of profit. Profit is no longer residual; henceforth it enters into the preliminary fixing of selling prices, just like wages or interest."[98]

But monopoly profit, in the era of self-financing, is not so much a matter of income for shareholders as of reserves for future investment by the big trusts. In other words: *Monopoly prices are determined in such a way as to ensure in advance the steady expansion of the enterprise, its capital, and its productive capacity.* The irony of this evolution is that this guarantee of future expansion results less from the requirements of competition than from the shrinkage of the field for new capital investment.

In this way there develops the practice called "investment through prices" (*Preisfinanzierung*). Discussing how this system worked in Nazi Germany, Lurie remarks: "Prices are made to include, in addition to costs and a reasonable allowance for profits, a depreciation charge which is destined to provide not only for replacement of the equipment involved but also for expansion of capacity. The value of the original investment is thus recovered at an accelerated rate, followed by accumulation of surplus reserves, which can be used for further financing. The technique has been referred to in German literature as 'financing by prices' (*Preisfinanziering*) . . . It . . . implies necessarily the existence of some kind of monopolistic elements. While prices are formally based on costs, the actual situation is one of monopoly pricing, calculated to yield self-financing surpluses disguised as costs."[99]

The writer also gives some examples of price-calculations of this sort. The *Vereinigte Aluminiumwerke A.G.*, which controls 70 per cent of German production of aluminium, frankly notes in its report for the financial year 1937 that "depreciation [!] and other entries under the heading of reserves amount to 204 RM per ton of aluminium, the price of which is 1,330 RM. After financing the expansion programme [a strange sort of 'depreciation', indeed!], some of the amount concerned may be used to reduce the price of the metal", adds the report.

In the same year, the report of the Rheinmetall-Borsig arms trust showed that the government approved the practice of not distributing profits, "in view of the heavy self-financing requirements of the company and the uncertainties attached to the long-run prospects of the investments."[100]

The situation is no different in the U.S.A. Before the Flanders Committee of the Senate which, in December 1948, undertook an inquiry into the level of company profits, the representatives of the trade unions formally accused the trusts of raising prices, not in order to meet higher costs but exclusively in order to secure funds for their own expansion. The representatives of the trusts did not try to refute the evidence, contenting themselves with alleging that this expansion

. . . was in the public interest! (see declarations by representatives of Standard Oil of New Jersey, General Motors, General Foods, General Electric, etc.).[101]

Before the war, an economist described as follows the price policy of the General Motors trust:

"After the depression of 1921, General Motors adopted a price policy which depended upon an investment policy. Assuming that expansion is desirable so long as the anticipated revenue from the sale of the added product at the anticipated price will more than cover the anticipated cost of the new capital, the company predicted sales trends, the cost of capital involved in expansion, and the load factor in the use of equipment . . . By estimating the amount of idle capacity which would be encountered because of fluctuations in sales and by applying the resulting load factor in the determination of both its price policy and its investment policy, it made these fluctuations consistent with stability of its prices and rate of investment . . ."[102]

The policy of General Motors has not changed since then:

" 'General Motors' approach to pricing, Mr. Coyle stated [in 1949], 'is predicated on a measurement of unit costs calculated on a standard or average volume rate of operations which takes into account plant capacity and the market potential over the long term'. This is a good if concentrated summarisation of G.M's traditional pricing policy. G.M. first posits a reasonable rate of return that it might hope to earn on its capital investment over a period of years, good and bad; then it fixes upon a 'standard' volume that it hopes similarly to average over these same years. It then arrives at a price—a 'standard' price—which will earn that return on that volume of business. Now this price is a fixed figure in so far as fixed charges are concerned—the charges for tools, overhead, depreciation, insurance and so on."[103]

It should be noticed that this price also implies elimination of the risk of economic crises, as other monopoly concerns have frankly admitted.[104]

The super-profits thus realised are so high that the trusts prefer not to admit the true size of their reserves, so as not to arouse public indignation . . . and so as to reduce the amount of taxes they have to pay. In this way there develops the practice of hidden reserves, which explains the astonishing revaluations of nominal capital which we have mentioned in connexion with Germany. The published balance-sheets reflect less and less the *true* position of the trusts, and become instead devices for *concealing* this position. The techniques used to disguise hidden reserves in balance-sheets are the following:

1. Excessive depreciation allowances. These are supposed to reconstitute the fixed capital used up, at its original value. If a machine worth 10 million francs is used for 10 years, and the price of this machine has not increased during this period, one

million francs must be set aside each year for its depreciation. If, however, *two* million are set aside, then a "depreciation fund" is formed which in fact makes it possible, at the end of these ten years, to double the fixed capital, buying two machines to replace one.*

2. Reducing the estimated value of the stocks held by the enterprise. The credit side of the balance-sheet shows the stocks of all kinds belonging to the company. If, in estimating uncertain future changes in prices, the company reckons these stocks at half their real value, though actually selling them thereafter at this real value, it possesses a hidden reserve of surplus value which can be capitalised.
3. Disguising the acquisition of new plant and equipment under the form of operating costs. Among current expenses are put down the costs of buying raw materials, electrical power, etc., which are covered by the sale of goods. If the purchase of new machinery takes place, though the counter-value of the operating costs is normally assumed to have disappeared in the course of production (circulating capital), the company has increased its fixed capital without this showing in the balance-sheet: "Certain replacement expenditure, duplicating depreciation or even serving for new investment, can be put down as maintenance charges. The net profit is obviously reduced thereby, and a net contribution to self-financing is thus included in hidden reserves; but the outside observer has no means of taking this into account."[106]†

But all these practices taken together add up to a paradox. Superprofits, the condition for which is a relative limitation of production, lead, through self-financing, to an increase in productive capacity!

* "If it be agreed that a depreciation rate of 10 per cent corresponds to the actual depreciation of the whole fixed investment (*Sachanlagen*), the 30 companies we have considered have exceeded, down to 1953, by 431 million DM, the depreciation allowance thus made necessary. 'Hidden reserves' have been formed, to this amount at least, and it is impossible to discover how much investment, over and above this amount, has been covered by costs of current working."[106]

† This phenomenon must be allowed for when analysing in a critical way the statistics which point to a recovery in the average rate of profit since the Second World War. The figures for admitted profits are understated, but the figures for capital (or own resources) which enter into the calculation of the rate of profit are understated to an infinitely greater extent. Without a proper accountant's report made under trade union supervision it must doubtless remain impossible to estimate the real wealth of monopoly firms, and, therefore to determine whether their rate of profit is or is not lower than before the First World War.

The law of the tendency of the rate of profit to fall continues to show itself through the fact that the average rate of profit is lower in the more advanced industrial countries than in the less advanced.

This is the fundamental contradiction of the age of capitalist decline, *the contradiction of overcapitalisation.* It finds expression, on the one hand, in the existence of a mass of money capital unable to discover fields for investment. This phenomenon was particularly felt in Germany on the eve of the Second World War, after seven years of prodigious super-profits.[107] It is the same today in the United States and in Switzerland. According to the American banker Warburg, at the beginning of the 1950's there were 7 billion dollars of hot money around every year, which the American capitalists did not know what to do with. Even in a country so inadequately industrialised as Italy, in the year 1958 alone the accumulation of capital exceeded investment by some 300 billion lire (statement by the minister Tambroni at the Christian-Democrats' conference in Florence in 1959).

Overcapitalisation finds expression, on the other hand, especially in chronic under-employment of existing productive capacity. Between 1920 and 1940 the average of the potential used every year in the American steel industry was 59·2 per cent of the total.[108] For the whole of manufacturing industry in the United States, during the boom years of 1925–1929 unused productive capacity was estimated at 20 per cent. In 1947 it again reached this percentage, to rise to 25 per cent in the summer of 1954.[109] The weekly *U.S. News and World Report*[110] published in 1955 and 1956 two tables showing employment of productive capacity in particular sectors of industry, *and this in the midst of a boom:* *

	Beginning of 1955	*Spring 1956*
Motor car industry working at	72% capacity	72% capacity
Steel industry working at	85% capacity	—
Cotton industry working at	70% capacity	—
T.V. industry working at	76% capacity	60% capacity
Refrigerator industry working at	46% capacity	—
Vacuum-cleaner industry working at	55% capacity	—
Furniture industry working at	89% capacity	95% capacity

The growing importance of armaments and war economy

Capitalism in decline is incapable of finding profitable use "in a normal way" for the whole of the huge amount of capital it has accumulated. But capitalism cannot exist and grow without finding

* Here is an appropriate commentary by A. M. Raskin in the *New York Times* in the midst of the new boom:

"Perhaps the most disturbing cause of the rise in strikes [the writer is writing on the eve of the great steel strike] is the fantastic productivity of our industrial machine and our inability to find outlets, either at home or abroad, for all we can produce. Our steel-mills can cover in 9 or 10 months all our domestic and export needs. We possess a similar surplus capacity for producing motor-cars, washing machines, refrigerators, incandescent lamps, T.V. sets, ships, railway carriages and a thousand [!] other products for which the need exists in an under-developed world, but for which there are too few buyers."[111]

such profitable use, without constantly expanding its basis. In proportion as this structural crisis becomes more marked, the capitalist class, and especially the heads of the monopolies, more and more systematically seek out *replacement markets* which can guarantee such expansion. Armaments economy, war economy, represent the essential replacement markets which the capitalist system of production has found in its age of decline.

The absence of new markets, the monopolistic practices of the big trusts, which entail a tendency to restrict production, and the lack of new fields of investment for "available" capital bring about, side by side, a slowing down in world-wide industrial development and a surplus of capital in the big imperialist countries. The steel industry found itself without a big new market to exploit after the world-wide development of railways. It was the arms policy of the Great Powers during the years leading up to the First World War that furnished the conditions for the advance of the steel industry, notably in France and Germany. Sometimes, as in Russia and Japan, other kinds of government contract played fundamentally the same role. On the morrow of the First World War, motor-car production partly filled this gap, but the great economic crisis of 1929–1932 was really overcome in heavy industry only through German rearmament, bringing in its train rearmament on the international scale. Similarly, in American industry, only speeded-up rearmament after 1940 succeeded in eliminating the stagnation of heavy industry at a level of underemployment.

The replacement market is, essentially a new purchasing-power created for the purchase of products of heavy industry by the state. But this purchasing-power is not "created" in the literal sense of the word, that is, it does not spring from nowhere. It is not "new", even when it appears in the form of bank notes freshly printed for this purpose by the state. Its only source is *a redistribution of the real national income*, a redistribution which can, of course, lead to an increase in production, that is, in overall real income, which thus becomes an extra source of new purchasing power.*

This shifting of purchasing power from one sector to another takes place through deductions made by the state, both direct and indirect, namely: direct taxes (on income, turnover, wealth, etc.); indirect taxes; more or less compulsory investment in state bonds; forced saving; printing of inflationary paper money which reduces the level of the workers' real wages, etc. It results in an enrichment of the heavy industrial monopolies at the expense of other strata of the population.

Thus, in the United States, of war contracts placed during the Second World War amounting to a total of 175 billion dollars, 67·2 per cent went to 100 monopoly trusts, mostly in heavy industry. In Ger-

* See Chapter 10, section on "War economy".

many between 1933 and September 1939 about 63 to 64 billion RM were spent on rearmament, which caused the production of capital goods (machinery and equipment) to increase fourfold as compared with 1932, while the production of consumer goods did not increase by so much as 50 per cent. During the Korean war, of all the war contracts placed between July 1950 and June 1953, the 100 biggest American firms received 64 per cent.[112]

The role of replacement market played by the arms economy is indispensable for making possible profitable use of the capital of heavy industry and the "overcapitalised" big monopolies. But the arms economy makes the state the chief customer of this industry. The special ties between the state and monopoly capital, which we have already stressed all through this analysis of the declining phase of capitalism, thus assume a more specific form.

The state, in close symbiosis with the monopolies, whose heads more and more often effect personal union with those who carry out key functions in the state machine, *guarantees the monopolies' profits not only by a policy of subsidies or insurance against loss, but also, and especially, by ensuring stable and permanent markets for them*: public contracts, which in the great majority of cases, are contracts for national defence.

The American weekly *U.S. News and World Report*[113] calculated that of 71·8 billion dollars expenditure provided for in the U.S. budget for 1957–58, 45 per cent represented direct contracts for industry, worth a total of 33 billion dollars, namely:

7·4 billion dollars to the aircraft industry
4·5 billion dollars to the building industry
2 billion dollars to the guided missile industry
1·3 billion dollars to the shipbuilding industry
1·3 billion dollars to the food industry
1·2 billion dollars to the chemical industry
1·1 billion dollars to the electronics industry

The same article shows that the aircraft industry (which employed 800,000 people at that time) and the electronics industry largely depended on public contracts. If we add to this the interest on the public debt, amounting to 7·4 billion dollars, which mostly goes to the banks and insurance companies,* nearly 60 per cent of the budget of the United States is paid directly to certain definite—and very narrow!—sections of the capitalist class: heavy industry (especially the big monopolies in this field) and the big financial concerns.

In France, the budget was officially analysed in 1956 as including war contracts to industry amounting to 630 billion French francs, of

* According to R. W. Goldschmidt, financial concerns held in 1949 72 per cent of the value of American state bonds.[114]

which 44 billion to the motor-car industry, 129 billion to the aircraft industry, 56 billion to civil engineeering, 6 billion to the rubber industry, 34 billion to the fuel industry, 14 billion to the chemical industry, 41·8 billion to the shipbuilders, 16·6 billion to the electrical industries, 30 billion to the sheet-metal producers, 6·4 billion for machine tools, 85·2 billion to the manufacturers of mechanical weapons, 45 billion for textiles and leather, 50 billion for telecommunication equipment, etc.[115]

The ever-greater—and stable!—share of armament expenditure in the national income of all the capitalist nations is the chief factor determining the growth of "public expenditure" in the national budget; the development of the social services plays only a secondary role in this connection—a role which often, moreover, is indirectly linked with the arms economy: thus, the social expenditure in the American budget of 1957–58 included 4·5 billion dollars for payments to ex-servicemen, etc. This public expenditure nowadays absorbs between 12 and 20 per cent of the gross national product of the chief capitalist countries.[116] As for military expenditure in the strict sense, it amounted, in percentage of the gross national product, to the following:

	1950–51	*1951–52*	*1952–53*	*1953–54*
United States	7·6	13·4	14·5	13
Britain	5·7	7·5	9·1	9·3
France	—	8	8	7
	1954–55	*1955–56*	*1956–57*	*1957–58*
United States	11·2	10·3	9·8	10·2
Britain	8·4	7·4	7·8	7·3
France	6	7	7	7

If war economy carried to its logical conclusion necessarily implies a process of contracted reproduction,* this is not so with a more or less permanent economy of armaments and militarisation which is kept within certain limits. On the contrary: in this case the state's contracts stimulate production and expansion of productive capacity not only in the directly "militarised" sectors, but also in the raw material sectors and even, through the increase in general demand thus created, in the consumer goods sectors. *So long as there are unused resources in society*, this "stimulant" will tend to ensure full employment of them, while in the long run undermining the stability of the currency.†

But as soon as full employment of means of production and labour has been achieved, no fresh expansion of military expenditure can take place without transfer of resources from other sectors of the economy to the militarised sectors (whether these transfers take place

* See Chapter 10, section "Contracted reproduction".

† See the following section: "Permanent tendency to currency inflation".

directly, by way of orders and decrees, or spontaneously, through the effect of price increases).

Even in this case, contracted reproduction does not necessarily set in in all sectors—it may be confined to certain sectors which are in direct competition with the arms sectors for the allocation of resources. Frequently, expanded reproduction may even continue in all sectors, on condition that the rate of expansion is stable or declining, that is, that the armaments sector absorbs the bulk or the whole of the *additional* resources available in the economy.

Thus, in Britain between 1950 and 1954 the available resources in metal products increased from index 91 to index 110, an increase of more than 20 per cent. During the same period, the metal products used for civil investment increased hardly at all (index 35 in 1950, index 37 in 1954); and exports, too, absorbed much the same amount (index 38 in 1950, index 39 in 1954). Consumer goods intended for the home market similarly absorbed the same quantity of metal products in 1954 as in 1950. The growth in production was essentially devoted to rearmament (arms expenditure absorbed 8 per cent of metal supplies in 1950 and 15 per cent in 1954) and the manufacture of private motor-cars (2 per cent in 1950, 6 per cent in 1954).[117]

Does this mean that a "moderate" arms economy can guarantee full employment and give birth to a "crisis-free capitalism"? Not at all. But before examining this problem we must draw attention to two other phenomena; the fact that the arms produced in order to secure a "replacement market" for capitalism have the unfortunate tendency to be used, and the fact that the arms economy implies a permanent tendency to currency inflation.

The increasing role played by the arms economy, and by war economy in the strict sense, in making possible the profitable use of capital, especially the capital of Department I, becomes a subsidiary cause of imperialist wars and war dangers. The latter are phases which are more and more difficult to avoid in the production cycle of capitalism in its period of decline. To the extent that the armaments policy becomes a necessary palliative for crisis, or the threat of crisis, it produces its own inevitable prolongation in the threat of war. The extension of productive capacity which it entails intensifies still further the contradictions which it has striven to escape. A new and more dangerous day of reckoning approaches; the arms policy cannot be pursued indefinitely without the use-value of the accumulated weapons being exploited, that is, without the outbreak of wars, whether "local" or general. The arms policy can follow a spiral course only in so far as the arms themselves are "consumed", disappear, that is, in so far as war breaks out. Finally, technical progress threatens the accumulated weapons with a rapid "moral depreciation". All these factors create a pressure in the direction of war danger from the moment a certain point is reached in rearmament, war-preparation and rearmament acting on each other alternately as cause and effect.

The economic cycle is thus combined with a cycle of wars: this is the era of war capitalism.[118]

But the economy of rearmament and the war economy do not merely constitute "replacement markets", they are also instruments for extending and expanding real markets. The intimate fusion of monopoly capital with the state ensures that the representatives of the former follow in the wake of the victorious armies and share out thereafter the loot of the occupied and conquered countries:

> *The Japanese trusts.* From 1937 onward, the entire economy of Manchuria was directed by the Aihaxa Company, belonging to the Mangyo group, which controlled the Industrial Company for the Development of Manchuria. Immediately after the military occupation of the province of Shansi (1938), the army turned over to the trusts the principal enterprises of this province. Every time a new territory was conquered by the army, the trusts shared in its exploitation. At the beginning of 1943, the field of operations of certain trusts was officially defined as follows:
> *Mitsui:* Indochina, Thailand, Malaya, Sumatra, Java, Borneo, Burmese cotton, cement in the Philippines.
> *Mitsubishi:* Coal in Malaya and Sumatra, teak in Burma (jointly with Mitsui), wolfram in Burma, cement in Malaya and Burma, dyes in Java and Malaya.
> *Bank of Formosa:* Hainan, Celebes, New Guinea, Pacific islands.
> *Nomura and Yasuda:* South China, etc.[119]
>
> *The German trusts.* After the occupation of the U.S.S.R., the big German trusts took over the running of most of the Soviet industrial groups, while the big banks financed the *Ostgesellschaften.* As was shown by the evidence presented at the Nuremberg trials, Krupp took over two factories at Mariupol, two at Kramatorskaya and one at Dniepropetrovsk. In 1943 Krupp dismantled the mines and steel works of the Dnieper region, including the Voroshilov factories at Dniepropetrovsk. I. G. Farben controlled Chemie-Gesellschaft Ost G.m.b.H. and Stickstoff Ost. A.E.G. set up A.E.G.—Fabriken Ostland G.m.b.H., etc.
>
> *The American trusts.* When the American armies occupied Germany and Japan, American trusts such as Standard Oil, General Motors, Westinghouse, Philco, etc., established a network of branches in these countries. In Germany, Firestone took over the chief rubber trust, Phoenix Werke; General Motors took over the chief motor-car trust, Open Werke; Sacony Vacuum Oil Co. acquired important influence in Wintershall, etc.

Permanent tendency to currency inflation

The creation of a permanent, and growing, armaments sector within the capitalist economy explains another typical phenomenon of the period of capitalist decline: the permanent tendency to currency inflation.

Indeed, arms production has, from the currency standpoint, this special feature: it increases the amount of purchasing power in circulation without creating on the market a corresponding additional supply of *goods*, as counter-value. Even when this increased purchasing power brings about the re-employment of previously idle machinery and men, it causes inflation eventually. The incomes of the workers and the profits of the companies reappear on the market as demand for consumer goods and capital goods, without the production of these goods having been increased.

There is only one special case where the production of armaments is not a cause of currency inflation, and that is when *all* arms expenditure has been financed *entirely by taxes* (that is, *by reducing the purchasing power* of individuals and firms) and when taxes do not change the rates between demand for consumer goods and demand for capital goods if the supply of these goods remains fixed.* Such a case is practically unknown in the epoch of the decline of capitalism.

The increasing importance of bank money in the monetary stock of many capitalist nations is such that currency inflation can take the form essentially of *credit inflation* (inflation of bank money). In the United States, *private indebtedness*, which has become more and more disturbing, is a generator of inflation. The volume of consumer credit increased from 7·7 billion dollars in 1929 and in 1946 to over 50 billion in 1958. Mortgage credit has grown from 27 billion in 1940 and in 1945 to 48 billion in 1950 and nearly 175 billion in 1961! But, in general, it is the *increase in the public debt* which is the determining factor in currency inflation. The essential part played by state expenditure in creating this credit inflation becomes apparent when we look, in the balance sheets of the banks, for what is set against the credits granted: we find public debt securities (bonds, Treasury certificates, etc.). The increase in the public debt has simply replaced (concealed) direct currency inflation. Instead of appearing in the form of an increased amount of fiduciary money in circulation, it appears in that of an increase in the *fictitious capital* constituted by public debt securities.† But the total stock of currency is swollen exactly as if there had been an issue of paper money.

Here, in this connection, is the share occupied by public funds in the total assets of the commercial banks of various countries: [120]

* When full employment has been re-established thanks to the arms economy, but at the same time production of consumer goods remains fixed, all available resources having been diverted to Department I, increasing the incomes of wage-earners and demand for consumer goods has an inflationary effect.

† Between 1945 and 1952 the circulation of money increased by only 4 per cent in the United States, despite the Korean War.

	1913	*1938*	*1945*	*1952*
Belgium	—	15	65	42
Denmark	—	14	23	14
United States	4	29	60	33
Britain	—	37	63	50
Italy	—	30	64	32
Holland	—	—	73	58
Sweden	—	3	24	13
Switzerland	—	3	26	13
Canada*	2	11	44	33

There are, of course, countries, such as Germany after 1933 and France after 1940, in which the inflation caused by unproductive public expenditure appears directly in the form of additional, depreciated bank notes. In Germany, the currency in circulation increased from 10·4 billion RM in 1938 to 56·7 billion on 15th February, 1945; in France it increased from 112 billion francs in 1938 to 577 billion in 1945 and 2,000 billion in 1952. In Japan it even increased from 2·9 billion yen in 1938 to 54·8 billion in 1945!

If, in spite of these substantial increases, the increase in prices was in some cases relatively modest (notably in Germany) this was because, on the one hand, production and taxation were greatly increased, and, on the other, a big slice of the distributed purchasing power was "frozen" in the banks in the form of more or less forced saving, and because, finally, the state, using police pressure, enforced a stability of "official" prices which contrasted with the more spectacular and more "real" increase which occurred on the black market.

Permanent inflation, even when it is more or less "moderated" or "frozen", as today in the United States (and as happened in Nazi Germany), always implies a *redistribution of the national income.* Its first victims are the recipients of fixed incomes, together with all the sections of the wage-earners who do not possess the means or the trade-union strength needed in order to safeguard their real incomes.

Nevertheless, when the economy continues to be generally expanding, this redistribution does not necessarily imply an absolute worsening of the workers' standard of living (this did not happen, for instance, in the United States between 1945 and 1958). But it does imply that the share of the increasing social product which goes to the wage-earners is less than it would have been with a stable currency. Inflation serves in this instance as a means to relative neutralisation of trade-union power, and is not, as conservative circles rashly allege, the "result of trade-union pressure".†

* The Royal Bank of Canada alone.
† See Chapter 18, section on "The Keynesian revolution".

Various features of the declining phase of capitalism further reinforce the inflationary tendency which is fundamental to our era. To be mentioned especially are all the practices of speeded-up depreciation, self-financing, and, in general, the excess liquidity of the big monopolies. This results in raising prices, thus increasing the volume of currency circulation, without this money finding any counterpart on the market, *the duration of the real renewal cycle of capital not having been reduced in the same proportion as that of the financial and accounting cycle of depreciation.* These liquidities come back into the currency circuit if they are deposited in the banks, and thus stimulate credit inflation. Otherwise, they are used to buy short-term state bonds, which "finance" deficits or unproductive budgetary expenditure, and thus create inflation in the literal sense.

A crisis-free capitalism?

Since the Second World War, capitalism has experienced four marked recessions: in 1948–49, 1953–54, 1957–58, and 1960–61. It has had no grave crisis, and certainly nothing of the dimensions of 1929 or of 1938.

Have we here a new phenomenon in the history of capitalism? We do not think it necessary to deny this, as certain Marxist theoreticians do, explaining the facts with the aid of all-purpose formulas (e.g. "the world economic cycle has been broken up, owing to the world war, and this has prevented [?] it from deepening", says J. L. Schmid.[121] This writer forgets that many past cycles have been marked by big gaps in time as between one country and another.)

The origins of the phenomenon are connected with all the features of the phase of capitalist decline which we have listed. The capitalist economy of this phase tends to ensure *greater stability* both of consumption and of investment than in the era of free competition, or than during the first phase of monopoly capitalism; it tends towards a reduction in cyclical fluctuations, resulting above all from the increasing intervention of the state in economic life.

The greater the number of the sectors of the economy over which the monopolies wield total control, the more investment in these sectors will tend to be spread out in time, regardless of the moment in the economic cycle. Monopoly profits, "investment through prices", the guaranteeing of profit, all signify, in the last analysis, that the accumulation of monopoly capital has freed itself, to some extent, from the cycle, that it forestalls crises, that it allows for them in advance in the way it calculates its selling prices. Increasingly, the big monopoly companies thus apply a long-term investment policy, a "programming", if not a "planning" of investments (including the maintenance of an extra margin of capacity intended to meet the sudden onslaughts of the boom).[122]

It may thus be considered that the reduction in the size of cyclical fluctuations results in part from the very working of capitalist economy in our era.

The greater, moreover, the number of monopolised sectors, the greater likewise is the number of sectors in which the capitalists, possessing a huge structure of fixed capital which has to be currently depreciated, are fully interested in retaining "stable" social relations. Superprofits enable them to ensure stable incomes for their employees, and even a slow but regular increase. The stability of the régime demands the generalisation of systems of social insurance, social security, unemployment pay, etc. All these systems mean, in the end, that during a period of crisis the total purchasing power of the wage-earners is not reduced by an amount equal to that represented by the ratio of unemployed to total labour-force, but only by a much smaller amount. Through the working of these immanent forces of the system, total demand thus declines less markedly in a period of crisis than used to be the case.

The system contains, however, an important new factor of instability, which entails the risk of neutralising the previously-mentioned "stabilisers": the importance assumed by the production of *durable consumer goods*. This is explained by the increase in real incomes, and especially by their greater stability, which makes possible hire-purchase selling, without which workers could not acquire consumer durables. Contrary, however, to what is characteristic of non-durable consumer goods, the demand for these durable goods is very elastic, and at the start of a crisis undergoes a decline even sharper than the demand for capital goods, as we see from these figures:

> Between December 1956 and January 1957 and April 1958, American industrial production fell by 21 points, production of durable goods by 36 points, and production of consumer durables by 44 points (of which, motor-cars by 75 points!).
>
> In percentages, these reductions were 14·2, 21·5, 31·2 and 44·4, respectively. Compared with the previous peak in September—October 1955, the fall amounted to 14·2 per cent, 18·6 per cent, 37 per cent and 51·8 per cent, respectively.[123]

Furthermore, the immanent forces which work in the direction of a relative reduction in the size of fluctuations operate only temporarily. The monopoly sectors stabilise their investments, but those of the sectors open to competition experience fluctuations which are even more violent than before. If reduction in investments in a period of crisis no longer takes place, or only to a limited degree, in the monopoly sectors, the latter show themselves incapable of investing the whole of their swollen mass of profit. Again, while wages tend not to decline markedly in a period of crisis, as they used to, owing to the strength of the trade unions, neither do they tend to rise markedly in the boom period. *The whole system evolves not so much towards uninterrupted growth as towards long-term stagnation.*

It is here that an additional factor cames in: the redistribution of part of society's resources through the state. True, its operation is felt as much in the consumption sphere (subsidies, social insurance, family allowances, salaries of civil servants, etc.) as in that of investment (schools, roads, hospitals, armaments, etc.). But we have already shown that this activity in favour of consumption is more modest than is generally thought,* a large share of the resources thus redistributed coming from the same classes—not the same families, or the same individuals, of course! —that benefit by these "transfers".

It is thus above all in the sphere of investment that the role played by the state has become more and more significant. From the standpoint of the capitalist production cycle, its role can be summed up like this: it makes up for the chronic inadequacy of capitalist investment and thus to some extent offsets the tendency to long-term stagnation. It may, furthermore, strive to counterbalance any sudden reduction in private investment by a corresponding increase in public investment.†

The practical effect of this increased economic role of the state is precisely a reduction in the size of cyclical fluctuations. This will easily be understood if one considers the cumulative consequences which characterise the march of the classical crisis and depression.‡ At their beginning, dismissals bring about a decline in expenditure on consumer goods; as a result, orders (investments) are reduced successively in both departments, which in turn leads to fresh dismissals, etc. If, however, from the moment of the first dismissals and the first reductions in private investments, the public authorities increase their expenditure, *this onward march of the crisis is blocked*. It comes to a standstill until the inherent forces of the system bring about recovery.

We observe this at once if we compare the beginnings of the post-war recessions with those of the two big pre-war crises. It is seen that the size of the initial decline is not greatly reduced, especially if one takes the beginning of the 1957 recession, compared with 1929; what distinguishes these recessions from the pre-war crises is that they *halt* at this stage.

* See Chapter 10, section "Redistribution of the national income by the state".

† It must be stressed that the permanence of an arms economy has undoubtedly stimulated an "inventions explosion" since the Second World War, many military inventions finding application in civil life too. The boom of the 1950's was to a large extent due to this "explosion".

‡ See Chapter 11.

PERCENTAGE CHANGES DURING THE FIRST NINE MONTHS OF CRISIS IN THE U.S.A.

	1929–32	*1937–38*	*1948–49*	*1953–54*	*1957–58*
Employment (except agriculture)	− 6·5	− 7.1	− 3·5	− 2·9	− 4·2
Gross national product	− 5·5	− 7·8	− 2·6	− 2·7	− 4·1
Industrial production	−15·9	−30·4	− 7·4	− 9·8	−13·1
Volume of retail sales	− 6·1	−11·4	− 1·4	− 0·3	− 5·1
Orders for durable goods	−26·5	−39·5	−21·6	−14·3	−20·1[124]

The state cannot, however, create any amount of extra purchasing power it likes; and, the bigger the recession, the bigger must be the creation of "replacement" purchasing power, and the more this promotes the tendency to inflation. The dilemma confronting the state in the age of declining capitalism is *the choice between crisis and inflation*. The former cannot be avoided without intensifying the latter.

At first sight, the "moderate" inflation caused in the capitalist countries of the west by the increase in unproductive public expenditure does not appear to threaten the future of capitalist economy. For this reason, many specialists briskly call on the state to ignore this "pseudo-danger" and to undertake general deficit spending in increasing proportions.

This is, however, a short-sighted view. The tendency to more or less permanent inflation causes many hindrances to the normal functioning of capitalist economy. It encourages speculation and increases the insecurity which hinders "normal" investment activity. It disorganises or obstructs the mechanisms which, in the classical style of the age of free competition, normally bring about recovery. There are no more reductions in prices, even in recession periods. Consumers' purchases no longer play the role of a factor in recovery. The fall in the rate of interest no longer causes investments to rise to a serious extent, etc. Thus, already during the recession of 1957–58, the governments of the United States and Britain hesitated to apply the familiar remedies for quickly liquidating the crisis, for fear of fostering a rise in prices even before recovery had begun—as moreover, promptly occurred, in spite of the modest amount of additional expenditure.

This does not mean that the capitalist state will be able to allow itself the luxury of passively watching the development of a major crisis. In the *political and social* world context of today, that seems to be out of the question. Such a crisis would bring about the collapse in short order of capitalism in a number of countries, which would see before them the example of societies with a planned economy, free from unemployment and already enjoying a rising standard of living. Capitalism will thus choose to employ the "anti-cyclical" techniques. But it will do this hesitatingly, with many misgivings, and, finally, it will not prevent inflation from getting worse. The capacity of the currency to resist—which, by definition, is limited in time—thus appears as the insurmountable barrier against which, in the long run, the moderating intervention of the state in the economic cycle is brought up short. The contradiction between the dollar as an anti-cyclical device in the United States and the dollar as money of account on the world market has already become insurmountable. It finds expression in a tendency to deficit in the United States' balance of payments.

But cannot the substitution of *productive public expenditure* for unproductive expenditure avoid both crisis and inflation? Productive expenditure can be of two kinds: productive consumer expenditure or productive investment expenditure.

The former is in contradiction with the very logic of capitalism. To take from the non-wage-earning classes amounts of the order of 20 to 30 billion dollars a year so as to redistribute them among the wage-earners (their families or the unemployed) would not be agreed to by the bourgeoisie except in circumstances in which it had already *de facto* lost political power—and then even more radical remedies could be adopted. Moreover, the long-term effects of such measures would be disastrous for capitalism. They would tend to increase considerably the minimum subsistence wage, the "elements historically regarded as necessary" in this wage, and this not as a result of an increase in the productivity of labour but through a *real* redistribution of social income, that is, through a *considerable reduction in the rate of profit*. There is no historical precedent permitting us to suppose that the bourgeoisie would be ready to agree to such a transformation in its régime.

It is the same with the state's productive investments. These would in practice create competition with the private sector at the very moment when the latter was already complaining about overproduction and excess capacity. It is true that productive investment might be diverted into "new" sectors which required substantial outlay while not yet guaranteeing a "normal" return (e.g. the nuclear power industry). Such investments would, however, merely prepare better conditions for profitability, and would very soon give rise to pressure by capitalists for the private sector to benefit from the good fortune. Further, it is out of the question that possibilities of investing sums of the order of *several dozen billion dollars* a year should exist in these new branches.

There remains the question of unproductive investments of a particular kind, those which entail *indirect savings* for capitalism: hospitals and improved health services (which cut down costs arising from employees' sickness); improved roads (which reduce transport costs); improved education (which shortens the periods of apprenticeship for workers and other employees); etc.[125]

Expenditure like this, even if "inflationary" in its immediate effect, would in the long run reduce long-term inflation by increasing the productivity of labour obtained with a definite stock of capital (and of money). Nevertheless, it is equally improbable that the capitalist would allow a substantial increase in this expenditure. Even a writer like Strachey, though he seems to rely on this factor, has to admit that a fierce resistance is to be met with on this front, in capitalist circles; this resistance wavers only when it is a matter of expenditure on armaments.[126]

Finally, it must not be forgotten that a capitalism which knows "only" recessions is certainly not a crisis-free capitalism, it is merely a capitalism with less disastrous crises than those of 1929–39. All the reasons given in Chapter 11 which determine the inevitability of cyclical fluctuations remain valid. *In absolute quantities*, the loss and waste caused by these recessions are substantial, and continue to testify regularly against the capitalist order, exhorting us to replace it by a more rational economic and social system.

Thus, during the American recession of 1957–58 alone, the number of wholly unemployed exceeded 5 million, that of partly unemployed 2·5 million. United States production suffered, during those two years, a loss of nearly 100 million tons of steel* and nearly 5 million motor-cars, losses comparable to those of the 1929–33 crisis. The idea that the workers will agree indefinitely to be doomed to unemployment every four years, or at least threatened with it, and that they will regard this state of things as normal and ruling out any need to transform it structurally, does not seem to be at all realistic. In this sense, too, no proof has so far been provided that capitalism has "overcome crises".

The laws of development of capitalism in its age of decline

The time has come to attempt to synthesise the various tendencies in present-day capitalism which we have described in various places in this work.† To what extent do these tendencies conform to the general laws of development of the capitalist system, as Marx formulated them during the nineteenth century? Have new and contradictory tendencies appeared?

Monopoly capitalism and universal cartellisation of the economy have led to the co-existence of a group of different rates of profit (ranging from the highest rate, that of the monopoly sectors, to the rate in the sectors subject to more or less "normal" competition: retail trade, etc.). The power of the big monopolies generally speaking prevents the flow of new capital into the sectors which enjoy the highest rates of profit, save in altogether exceptional circumstances

* To be precise, 33 million tons in 1957 and 61 in 1958.

† Cf. Chapter 6, on distribution costs and the services sector; Chapter 7, on institutional credit; Chapter 8, on state credit as the essential source of the creation of currency; Chapter 9, on crises; Chapters 13 and 14, etc.

(wars, reconstruction, military conquests, etc.)* From this circumstance are derived the phenomena of self-financing and "overcapitalisation" in the monopoly sectors. From this also are derived the spread-over in time of investment projects, the increasing role of the state as "extra market" for excess capital, and a certain moderation of cyclical fluctuations.

But these very tendencies also promote tendencies in the opposite direction, to some extent of a "compensatory" nature. The larger the number of branches of industry in which penetration and primitive accumulation are found to be impossible, the more extensive become the sectors *outside of industry* towards which small and medium capital flows. This is an additional reason why the "services" sector has grown so much in our era.† As the organic composition of capital in this sector is markedly lower than in industry a certain recovery in the average rate of profit is thus achieved.

Furthermore, if the monopolies strive to put off as long as they can the introduction of certain technical improvements which threaten existing fixed investments, these improvements are increasingly likely, nevertheless, to be introduced, at first on the periphery of large-scale industry, and then *en bloc* and in a big way, at fairly well-spaced intervals, by the monopolies themselves. During these periods the useful "life" of fixed capital is shortened. This partly explains the reduction in the duration of the cycle which is observed thenceforth (on the eve of the First World War and after the Second).

The monopolies are not merely forced to behave in this way through fear of competition on the part of "new industries". These sudden flare-ups of technological revolution‡ which from time to time interrupt the tendency to long-term stagnation are also a retort to the strengthening of the trade-union movement and to the tendency for real wages to improve, which they themselves seem temporarily to have encouraged.

The reduction in cyclical fluctuations, the reduction in the amount of unemployment, involve the risk, in the long run, of depressing the rate of surplus value, or at least of delaying its increase. The chief reaction by capital to the tendency of the rate of profit to fall would thus be hindered. Technological advances such as the introduction of

* "[In oligopolistic industries] the internal accumulation . . . tends to exceed the amount required for expansion of capital equipment in these industries. The flow of the 'surplus' funds into other industries is impeded by the additional effort required for entering new lines which weakens the incentive to invest for the owners of these funds."[127]

† For other aspects of this question, see Chapter 6.

‡ These flare-ups are now-a-days more and more a by-product of rearmament and war economy. In this sphere technological research goes on literally without a stop, and leads, after a more or less substantial interval, to the peaceful use of the discoveries and inventions.

conveyor-belt working or of automation (with forty years between them in the United States) make it possible both to "reinforce" the industrial reserve army and to increase rapidly the productivity of labour. Thenceforth they raise the rate of surplus value.

The development of new industries;[128] "aid to under-developed countries"; extension of state expenditure both military and non-military; growth of "distribution costs" and of the tertiary sector, all play the same role of safety-valves for capitalism in decline. By offering fresh fields of investment to capital they temporarily offset the tendency to long-term stagnation and the plethora of capital without prospect of paying investment. The industrialisation of the under-developed countries, the rapid spread of technological revolutions to all branches (including distribution), rampant inflation, all these work in the opposite direction.

On the purely economic plane, this evolution need not lead to an automatic collapse of capitalism, even when half of all capital lies asleep in the banks or is serving to finance public works which are "absurd" from the capitalist standpoint. But socially and politically the period of capitalist decline educates the working class to interest itself in the management of enterprises and the regulation of the economy as a whole, just as "free-competition" capitalism educated the working class to interest itself in the division of social income between profits and wages. There results from this a *potential enhancement* and sharpening of the class struggle, to which the bourgeoisie can react in two ways: *the Welfare State*, or *Fascism.*

Welfare State and Fascism

It would be possible to draw up, looking at the matter from the standpoint of the wage-earners' interests, a scale to show the comparative value of the various forms of public expenditure and of the different ways they are combined. At one extreme would be the "ideal" of the Welfare State—we mean the "ideal" and not its more or less deformed realisation—devoting all its expenditure to improving the position of low-income families and to purposes of public utility. At the other extreme would be the Fascist State in its most thoroughgoing form, "redistributing" in favour of the manufacture of arms, and in general, of heavy industry, part of the income of bankers, manufacturers in the sphere of the light industry, traders, the middle classes, and, above all, the wage-earners (through wage-freezing and forced saving,* made possible by the suppression of the trade-union movement).

The latter solution is not an "ideal" one from the standpoint of the capitalists: it gives rise to an intensification of all the social tensions, which, in the long run, means risking shipwreck of the capitalist order.

* *"Eisernes Sparen!"*

But it does correspond to a need in so far as too limited social reserves, a currency already too much undermined, too restricted fields for private investment, make impracticable the policy of the Welfare State. The technique of pump-priming* is then essentially the same as in the Anglo-Saxon or Scandinavian settings.[129] But its purpose is more exclusively confined to the armaments sector. In Nazi Germany, between 1933 and 1939, the national income increased by exactly the same amount as military expenditure.[130]

The significance of this policy is clear—to bring about a recovery in the rate of profit at the expense of the working class,† which is deprived of its political and trade-union means of defence. It amounts, in fact, to a *militarisation of labour* such as occurred in Japan and which was adequately described in the following lines:

> "Labour management is satisfactory, on the whole, at the medium-scale and larger mines. The morning scene between 5.30 and six o'clock at the march-off places of mines impresses one with the change that war has wrought. The workers line up into sections and march to their respective places of work like infantrymen to their posts or airmen to their planes. The hours of work are 10 hours on day-and-night shifts, from 6 a.m. to 4 p.m., but since workers cannot come out of the pits until their day's task is done the actual hours put in are 12."[132]

In the extreme form which it assumed, above all in Germany, during the Second World War, Fascism goes beyond the militarisation of labour, to the abolition of free labour in the strict sense of the word, to a return to slave labour on an ever larger scale. The "economic laws" which this labour obeys are specific laws which no longer have anything in common with the laws of capitalist economy: the latter has precisely this characteristic, that it is able to "integrate" at a certain level all the earlier forms of exploitation of labour, without thereby repudiating its own purpose, namely, the profitable use and accumulation of capital.

"This . . . means that a last stage of capitalism, working in a dictatorial political environment, tends to become a slave state. It becomes so as soon as competition disappears from the crucial labour market also. For then the employers—transformed into slave owners—attempt to wring by force the entire surplus‡ out of finally powerless workers.

* See Chapter 18, section: "The Keynesian revolution".

† In Nazi Germany wage rates were frozen. In principle, so also were prices, but in practice, while the prices of capital goods did not increase, those of consumer goods increased officially by 8 per cent, and in reality by nearly 25 per cent, between 1933 and 1937. Nominal wages rose by 8 per cent only.[131]

‡ This expression is not a happy one. What is characteristic of forced labour is not that the slaveowner takes possession of the social surplus-product but precisely that the mere idea of a necessary product, of a subsistence minimum, is completely deprived of meaning. The "payment" of labour is lowered so as not merely no longer to ensure survival in good health but even to imply certain death within a brief period of time.

In such a system 'the labour problem' is reduced to one simple question: At what speed is it most economical to work your labourers to death? This important issue was earnestly debated between Roman senators on their latifundia two thousand years ago, by the squirearchy of the old South in the last century, and between the gentlemen of the I. G. Farben's Vorstand [Board of Management] and the S.S. in our own day."[133]*

However, this form of super-exploitation of slave labour is compatible with capitalist economy only to the extent that it constitutes a by-product (even if a large-scale one) of this economy and not its *principal* aspect. The slaves working on the plantations could not *buy* the cotton which their masters took from them. The slave-labourers of Nazi-Germany were unable to buy the products of German industry. Were the majority of the subjects of capitalist society to be transformed into slaves, this society would thereby cease to be based on the production of commodities, and so would cease to be a capitalist society. This stage has not yet been reached, even in Nazi Germany. And it is not very likely that mankind will experience such a horror—the return to a slave-owning society as the dominant form of the mode of production—even as the price to be paid for a further delay in the advent of socialism.

Since, on the other hand, no state can put up with such social tension over a long period, a more lasting solution has to be sought in order to guarantee and increase capitalist profits.

This is why the Fascist form of managed economy inevitably evolves towards war economy, that is, towards the creation of the means needed to conquer markets and fields for investment of capital, which would make it possible to apply solutions of the "Welfare State" type and reduce social tension. But, at the same time, a managed economy of the "Welfare State" type is less and less capable of avoiding considerable economic recessions by its limited state investments, while investments of a larger order can be realised only within the setting of an economy of rearmament and war.

What this means is that no absolutely insuperable barrier actually separates the "Welfare State" economy from the Fascist economy. On the other hand, a few elements of the "Welfare State" are embodied in the Fascist economy; under Hitler, too, the unemployed, put back to work, saw their standard of living rise. On the other, the "Welfare State" economy has a tendency to transform itself into a

* To this could be added the examples of the Indians of Peru, worked to death in the mines by the *conquistadores* (Strachey mentions this example in another place), of the black slaves in the West Indies who died by thousands from privation and punishment, and of millions of other victims of modern colonialism, no less cruel than Nazi imperialism, but exerting its cruelty against men of other races and thus producing much less of a violent reaction on the part of "respectable" Europeans.

rearmament economy, sometimes introducing a series of phenomena typical of the Fascist economy, even in the richest capitalist countries: squeezing of civilian consumption and of production of consumer goods, forced saving, financing of rearmament partly from social security funds, etc.*

The economic policy of the bourgeois states is thus evolving towards a combination of elements of the "Welfare State" (more or less real, more or less demagogic, depending on the comparative wealth of the capitalist country concerned) and "Fascist" elements (safeguarding of profit by reduction in the standard of living of the masses). State guarantee of profits and the increasing fusion of the monopolies with the state lead to the fundamental role played by state contracts and public investment in keeping up a normal level of business activity. But this increasing economic role of the state means at the same time the violent compression of social and international contradictions, and so intensifies the advance of capitalism towards explosive outbreaks of war and revolution.

The age of the managers?

Berle and Means startled the academic world in 1932 by showing something which was well known to Marxists,† namely, that the development of joint-stock companies had resulted in a *de facto* separation between the owners and the administrators of big capital. James Burnham[135] hastily drew from this the conclusion that the capitalists had lost control of modern industry to "managers" who were similar to the bureaucrats who run Soviet society.‡ Since that time this claim has been repeated on numberless occasions; many socialist theoreticians regard it as proved (cf. André Philip, at the Montrouge congress of the P.S.A.). Nevertheless, it has not been proved at all.

Half a century ago, Henri Pirenne drew attention to the phenomenon of specialisation and of the *discontinuity of the leading groups of the bourgeoisie*.[136] It was not the Lombards or the Jews, specialising in usury (credit to kings) who, in the tenth, eleventh and twelfth centuries, became the first big merchants and extended the sphere of operation of capital in the reviving centres of trade. Similarly, manufacturing capital was not developed in its most mature form by the financiers who dominated the bourgeois world in the fifteenth and sixteenth centuries. In turn, it was not the big manufacture-owners who were to carry

* Cf. developments in France in recent years, the "strong state", Gaullism, etc.

† See Marx, *Capital* Vol. III, part 1, and Hilferding, *Das Finanzkapital*.[134]

‡ Burnham crowned this rash judgment with the "proof" provided by the German-Soviet pact. Hardly had his book appeared than war broke out between Nazi Germany and the U.S.S.R.

through the industrial revolution, nor the big innovating industrialists who were to create the first big monopoly trusts. *Change in the leading personnel* of the capitalist world is thus in no way synomymous with the replacement of the bourgeois class by another.

It has been stressed that the managers of big monopoly companies control enormous amounts of capital, quite out of scale with what they themselves own. This is true. But far from finding in this fact the negation of capitalism, we find in it only an ultimate consequence of the law of concentration of capital, which always operates by the way of the expropriation *de facto* (the legal aspect often being much more obscure . . .) of many capitalists to the advantage of a few.*

The decisive question is whether the managers behave in their social role in a different way from the bourgeoisie, whether they are indifferent to private property or even fight against it, whether they engage in struggle with the leading circles of big capital, whether they mostly spring from the bourgeoisie or from the working class. Practical experience shows that great "administrators" who have reached the summit of their careers amass large fortunes, become big bourgeois, and regard as the logical culmination of their "success"—marriage with the daughter of a big banker or of the head of a big industrial monopoly, so becoming absorbed into the top strata of the big bourgeoisie and its "great families". In the United States, moreover, two-thirds of all the higher cadres, and three-quarters of the financial cadres, themselves originate from the *élite* of society.[137]

Among these great administrators the accumulation of capital takes place as much by way of the payment of princely salaries as by the distribution of free shares, the possibility of making huge gains without any risk by means of "options",† the advantage of sumptuous "expense accounts",‡ the acquiring of information which enables them to conduct profitable speculation on the stock exchange. The results are there to be seen, moreover: when Mr. Charles Wilson became Secretary for Defence, after a "managerial" career with General Motors, he had 2·5 million dollars' worth of shares in "his firm". M. Gillet, who rose to be head of the biggest finance group in Belgium, the Société Générale, accumulated dozens of millions of Belgian

* See Chapter 7, section on "'Democratisation' of capital?"

† When a new issue of shares takes place, the directors have the right to "take an option" on some of these shares. If the latter fall in value on the stock exchange, the directors can decline to buy them. If they rise in value, the directors will take them up and sell them at that moment, thus making millions without venturing a penny. The weekly *U.S. News and World Report*[138] says that this is the only way nowadays of rapidly becoming a dollar millionaire.

‡ In London and New York, many luxurious cars are maintained and many of the most expensive restaurants and hotels are in business only on the basis of "expense accounts".

francs. During the four years 1954–57 alone his fees, apart from anything else, amounted to nearly 40 million francs! The success of the great "managers" is thus merely a periodical (and classical) rejuvenation of the big bourgeoisie by the assimilation of fresh elements.

A close study of American, British and French big capital shows, moreover, that the true antagonism is not between shareholders and managers but rather that which, in Joan Robinson's words, opposes those shareholders who are "insiders" to those who are "outsiders".[139]*

The former are the big shareholders who take part in the management of enterprises (even if only as *financial* experts); the latter are passive shareholders, *rentiers* more or less. Even if they possess only a small percentage of the shares of a company, the "insiders" are none the less capitalists, and often franc billionaires. There are few managers or none among them: General Motors is, in fact, controlled by and on behalf of the Du Ponts, not Charles Wilson. Study of the majority of the large British firms shows the same situation.†

Finally, C. Wright Mills, the brilliant American sociologist, has shown that the "managers" predominate only at the level just below the summit; it is the heads of monopolies, the "great families", who remain supreme on the summit itself.[142]

The bankruptcy of capitalism

According to Vauvenargues, hypocrisy is the homage rendered by vice to virtue. By analogy, it can be said that the increasing practice of intervention in the economy by the state is an involuntary homage rendered to socialism by capital.

True, increasing state intervention in the economy, the growth of a "public" sector, and even the nationalisation of certain unprofitable branches of industry do not amount to "socialism". An economy can no more be "a little bit socialist" than a woman can be "a little bit" pregnant. State intervention, management of the economy, operate within the framework of capitalism, in order to consolidate capitalist profits, or at least those of the decisive sections of the capitalist

* Cf. the similar observation made regarding France by M. H. Ehrmann: "It seems that in France the owners of family businesses, members of a closely united class, are tenacious and influential enough to impose their outlook on those who come in from outside. For many managers of firms, their functions are as fully 'personal' as those of a factory-owner. The power of bourgeois traditions is great enough to unite the managers, even those who come from the public service, like M. Richard, and some of the most outstanding persons in the present-day employers' movement. The differences of mentality which continue to exist are often more apparent than genuine. The real antagonism is above all that between the heads of big firms, whether they be managers or owners, and those of small, old-fashioned firms."[140]

† See in Chapter 7, section on "'Democratisation' of capital?", the figures given by Professor Sargant Florence.[141]

monopolies. If at the same time they have the long-term effect of undermining the foundations of the régime, this is only another manifestation of the contradictions which are tearing capitalism apart.

In its declining phase, capitalism intensifies a number of its inherent contradictions. It intensifies the contradiction between socialised production and private appropriation. The socialising of production takes a particularly obvious form in the attempt to sum up all the economic activities of the nation in *economic budgets*, in *national balance-sheets*. But officially *recognising* in this way the *de facto* socialisation of economic life, and *abolishing* the private ownership and management of the economy which prevent its rational organisation, are two different things.

It intensifies the contradiction between the organised, planned character of the production process *within the enterprise*, the trust or even the branch of industry, and the anarchy of capitalist economy *as a whole*. The idea of planning is accepted and applied by the bourgeoisie; indeed, one can even say that it is of bourgeois origin. But the bourgeoisie accepts and adopts it only to the extent that it does not imperil the *profit motive*, does not embrace the whole of economic life, substituting production to meet need for production for profit.

It intensifies the contradiction between the progressive international unification of the economy and the retention of the motives of capitalist profit which dictate the international operation of capital. The problem of under-development confronts the conscience of the world. Under-capitalisation is admitted to be the cause of this phenomenon. The over-capitalisation of the big capitalist countries is so marked that huge unproductive expenditures are needed in order to save them from long-term stagnation. Yet, nevertheless, no effective effort is undertaken, nor can it be undertaken, to help to bring about the *industrialisation* of under-developed countries in a *disinterested* way.

It intensifies the contradiction between the tendency for the productive forces to advance and the obstacles which block this advance owing to the very existence of capital. Does it seek to escape from them by stimulating the purchase of its products? Then the profitability of the operation is itself brought into question. Does it seek to escape by increasing unproductive investment? Then the slow devaluation of the currency ends by bringing about that very long-term stagnation that the system was initially trying to escape.

Never, on the world scale, has there been such a crying contrast between the enormous wealth potentially at the disposal of all mankind, and human poverty, along with waste or under-employment of human and technical resources, as there is today.* If men do not learn

* "But, it will be asked, why is it not possible for the producer to expand his capacity step by step as his market grows? The reasons for this are obviously the indivisibility and durability of plant and equipment. Only if

to reorganise their society in accordance with the same scientific methods which have enabled them to win splendid victories over nature, the productive forces threaten to transform themselves once more, and this time finally, into forces of collective destruction, of nuclear war.

plants were more easily divisible and the economies of large scale did not exist, or, alternatively, if plants were scrapped and rebuilt at shorter intervals, could adjustment of capacity proceed evenly. This possibility exists, to some extent, for the community as a whole, where an expansion of output can be made possible by a gradual extension of capital equipment. But the individualism of a competitive system does not permit this solution. Each of the competing producers wants to take part in an eventual expansion of sales and not to have it snatched away by new competitors . . . Thus, a *planned* and deliberate reserve of excess capacity is at all times, held by most producers, with good reason from their point of view, even though a part of it, at least, is waste from the point of view of the community."[143]

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CHAPTER FIFTEEN

THE SOVIET ECONOMY

THE Soviet economy of today is the outcome of contradictory factors. On the one hand, the backward conditions of old Russia, with its immense natural resources hardly skimmed by industry, and the predominance of rural economy, broken up into 25 million separate peasant holdings. On the other, the conquest of power by the Bolshevik Party in 1917, and the conscious effort undertaken by the Soviet state which thereby came into being to build, in this huge country, isolated in the midst of the bourgeois world, an economy qualitatively different from capitalism.

Like every other human society, Soviet society is characterised by certain *constants* of economic activity. The social product is divided between necessary product and surplus product. Part of the surplus product is devoted to developing the instruments of labour, the means of production. The particular way in which this surplus product is appropriated determines the special dynamic of the economy, whose laws have to be revealed. This special dynamic can be seen most clearly through a study of the different stages through which the economic policy of the Soviet state has passed since October 1917.

Stages of the Soviet economy

The Bolshevik leaders who headed the state that emerged from the revolution of October 1917 had no intention of building a complete socialist society in their country. They shared the unanimous view of the Marxists of that time, according to which such an undertaking required definite material pre-conditions: the predominance of the large industrial factory over the small one, and of industry over agriculture; a high level of development of the productive forces; a correspondingly high level of technical skill and culture on the part of the workers.

These conditions were largely absent in the Russia of 1917. The Bolshevik leaders at that moment saw the victory of their new nation as merely one link in a chain of international revolutions; victorious revolutions in industrially advanced countries, especially in Germany, were to create the starting basis necessary for a rapid transition to a socialist economy.*

* "When three years ago, we raised the question of the tasks and the conditions of the proletarian revolution's victory in Russia, we always stated emphatically that victory could not be permanent unless it was followed up

The delay, and then the defeat, of this international revolution set the ruling party a series of problems that were quite new and had not been solved by classical Marxist economic theory. The party found a series of answers to these problems which differed according to many factors which influenced the party's practice, factors among which the most important were, in the last analysis, the relation of forces between the classes on the international and national scales, and the predominance at different times of different social pressures which were brought to bear on the party.

The programme of the first Bolshevik government did not envisage the immediate expropriation of all the capitalists. It envisaged only the universal establishment of workers' supervision of production, the workers having as a first stage to apprentice themselves to the task of management by checking on the capitalist managers.[2] It further envisaged the nationalisation of the banks, after these had been previously merged into a single national bank; the progressive nationalisation of the chief monopoly-controlled sectors of the economy; the non-recognition of foreign debts; and the nationalisation of the land and subsoil, together with division of the land among the peasants. All these measures taken together would not have meant a qualitative overturn in the social structure of Russian economy.

However, the impetuous development of the workers' initiative; non-co-operation, and then sabotage, on the part of the industrial and administrative circles; the unleashing of the White Terror, followed by the Red; the outbreak of a widespread civil war which tore the whole country in pieces during a period of three years; the intervention of foreign armed forces in this war—all these events upset the long-term projects of the Bolshevik government and pushed it on to the path of rapidly changing the economic structure. The nationalisation of the banks, of wholesale trade, of all industry, and of all foreign property, and the establishment of a state monopoly of foreign trade, had created by the end of 1918 a new economic and social structure in Russia.

Under conditions of a besieged fortress, an economic system called "War Communism" was organised. The planning of all economic activity was rather a measure of *rationing* than of planned *development*. The production of commodities was restricted as much as possible. All trade was nationalised by a decree of 21st November, 1918. A large proportion of the wages of workers and officials was paid

by a proletarian revolution in the West, and that a correct appraisal of our revolution was possible only from the international point of view. For victory to be lasting, we must achieve the victory of the proletarian revolution in all, or at any rate in several, of the main capitalist countries. After three years of desperate and stubborn struggle, we can see in what respect our predictions have or have not materialised,"[1] declared Lenin in 1920.

in kind: the proportion of all wages paid in kind amounted on the average to 27·9 per cent in the second half of 1918 and 93·7 per cent in the first quarter of 1921.[3] Exchange between town and country shrank and became reduced to barter. Armed detachments of workers had to extort from the peasants the supplies of food needed for the towns (decree of 6th August, 1918). Industrial production underwent a steep decline, becoming more and more restricted to supplying the army*. The currency collapsed under the weight of galloping inflation. The whole of economic activity was dislocated.

After the victory won by the Red Army in the civil war, a victory which coincided, however, with an ebbing of the revolutionary movement in the rest of the world, the Bolshevik government considered that a recovery of the productive forces was the basic condition for the régime's survival. To this end, a retreat was organised from the extreme forms of elimination of all commodity production which had been characteristic of "War Communism". This was the "New Economic Policy" (N.E.P.). A tax in kind took the place of requsitions, leaving in the peasants' hands a surplus of agricultural produce which they could sell on the market. The freedom of wholesale and retail trade was restored. In 1923, 91·4 per cent of trading enterprises were private concerns, and these accounted for 83·4 per cent of the total trading turnover. The financial system was cleaned up,[5] the rouble stabilised, the payment of wages in kind abolished. Trade relations with the capitalist countries were re-established. Foreign capital was offered concessions on Soviet territory so as to hasten the development of productive forces. Crafts and small-scale industry were allowed to develop freely. In 1923 there were 147,471 small private industrial enterprises, employing 12·4 per cent of the total industrial labour force. In 1925–1926 these enterprises provided 20 per cent of all industrial production.

The N.E.P. thus achieved undeniable successes. In 1926 the level of development of the productive forces, in industry as well as in agriculture, reached and surpassed that of before the war. In 1927–28 the average real wage was double what it had been in 1908 and nearly 90 per cent more than in 1913.[6] The government began to make use of the available resources in order to develop state-owned industry.

But this development lagged behind the restoration of agriculture and the increase in the population. It further showed itself inadequate to meet the needs of the peasants for industrial consumer goods and to absorb the labour available in the countryside. Thus there developed, together with chronic unemployment in the towns,† the two classical

* The output of large-scale industry fell from 100 in 1913 to 12·8 in 1920, that of small-scale industry to 44·1 per cent, that of the textile industry to 5 per cent and that of the steel industry to 4 per cent of 1913.[4]

† This stayed around 1,250,000 all through the N.E.P. period.[7]

evils of agriculture in backward countries: the phenomenon known as the *scissors*, between agricultural and industrial prices, and rural overpopulation.*

At the same time, a class differentiation was taking place among the peasants.† The kulaks, the rich peasants, concentrated in their hands a large proportion of the agricultural surplus which came on to the market. Strumilin stated in 1923 that only 15–20 per cent of the peasants had wheat to sell.[11] The tax in kind, which was not progressive until 1926–1927, encouraged this concentration, together with the lack of reserves and of means of transport on the part of the poor peasants.‡

In exchange for this agricultural surplus, indispensable for the feeding of the towns and for making possible industrial accumulation, the kulaks demanded an adequate supply of industrial goods. In the absence of such a supply in the form of Russian products, they looked towards the world market for the satisfaction of their needs. This would have meant a coming together of the semi-capitalist forces inside the U.S.S.R. with the capitalist forces in the rest of the world. The break-up of the monopoly of foreign trade would have destroyed all possibility of rapid industrial development in Russia.

In fact there arose in 1923 a discussion within the Bolshevik Party about relations between the state sector (essentially consisting of large-scale industry) and the private sector, mainly agricultural and commercial. In this discussion the Opposition upheld the idea of a more rapid industrialisation, both to prevent this joining together of the Soviet rich peasantry and the world market and to maintain the alliance between the workers and the peasants, by giving increasing satisfaction to the peasants' need for manufactured consumer goods. For the same

* On 1st October, 1923, when the scissors were at their widest, the index of agricultural prices stood at 49, and that of industrial prices at 275·7 (100=level of 1913).[8] After a relative improvement in the situation in 1924–1925 the gap again became threatening in 1926 and 1927. In 1927 the peasant received for one quintal of rye only 50 per cent of the amount of salt, sugar, tobacco, textiles and metal articles that he could obtain in 1913 for the same equivalent.[9]

† In 1926, 70 per cent of the peasants with less than 2 hectares of land, 37 per cent of those with between 2 and 4 hectares, and 20 per cent of those with between 4 and 6 hectares had to hire draught animals and agricultural implements in order to plough their land. Four per cent of the holdings possessed 50 per cent of the agricultural machinery.[10]

‡ In 1924, at the 13th Congress of the Russian Communist Party, Kamenev estimated that 8 per cent of the holdings (representing 14 per cent of the peasants) accounted for 25 per cent of the cattle and draught animals and 34 per cent of the sown area.[12] The poor peasants had to sell their grain to the kulaks for lack of carts to take it to the market. Immediately following the harvest they had to sell their small surplus at low prices in order to supply themselves with industrial goods, whereas they bought back this corn from the same kulaks, at high prices, on the eve of the next harvest.

reason, the Opposition was the first to insist on the need for a general plan for industrialisation and accelerated accumulation in large-scale industry.[13]

The majority of the Central Committee opposed this idea. Mikoyan in 1924 attacked Trotsky's idea of a unified plan of development as "the height of utopianism".[14] Stalin declared that the U.S.S.R. had as much need of Dnieprostroy (the first great hydro-electric project) as a peasant without a cow had of a gramophone (minutes of the Central Committee meeting of April 1926, quoted by Deutscher).[15] Expounding the official thesis in their outline of political economy published in 1927, I. A. Lapidus and K. Ostrovityanov wrote about:

[Preobrazhensky's] "idea of super-industrialisation of the country by means of exploitation of the peasantry through high prices of manufactured goods, an idea which he has systematically and perseveringly advocated during the last few years, in consistency with this theory. . . It is clear that from the principles developed by Engels and Lenin our conclusion must be quite different. Prices must be low so that the peasant will feel the difference between a bourgeois and a proletarian dictatorship and their relation to small production, so that the peasant may be able to accumulate [!], so that his enterprise may not decline but progress, so that small production may be able, not in words but in fact, to avoid the capitalist path of development . . ."[16]

And Maurice Dobb, who has always faithfully interpreted the official theses of the leading circles of the U.S.S.R., wrote so late as 1928:

"The question 'Whither Russia?' which Trotsky made the title of his book [translated into English as *Towards Socialism or Capitalism?*] depended for its answer on conditions somewhat wider than those which he postulated: it depended, not merely on whether State industry would advance more rapidly in the future than other elements in Russian economy—more rapidly even than industry in other countries —but on whether either in the town or in the village old class differences were beginning to reappear. . . The official reply to the opposition criticism, therefore, partly took the form of a denial that the growth of the Nepman and kulak was as considerable as the opposition tried to portray. But this was not all. It also denied that the growing prosperity of the peasant was synonymous with or indicative of the revival of capitalism. Here was the basic error of the opposition, their misconception of N.E.P., their belief that state industry ought to develop at the expense of the small producer, instead of by raising the small producer along with it . . . The issue was erroneously represented as a competition between the prosperity of state industry versus the prosperity of peasant agriculture: the latter might grow more rapidly than the former and still not represent any capitalist tendency: and the growth of that very private accumulation in the hands of the peasantry which was depicted as dangerous might be a source of strength to socialist accumulation, if it could be attracted into Co-operation, State Loans, and Savings Banks."[17]

This debate was settled by life. During the winter of 1927–1928 the kulaks seized the Soviet state by the throat. They organised a veritable strike against food supplies for the towns, as Dobb admitted moreover, in a later work.[18]* After 1928, the leading faction in the Bolshevik Party, which for years had underestimated the danger† and had refused to take adequate measures, went from one extreme to the other, owing to panic. "Super-industrialisation of the country at the expense of the peasants" was carried out on a scale that the opposition had never conceived.‡

Thereby, the Soviet people were called upon to pay a terrible tribute in order to make rapid industrialisation possible, a tribute which could have been avoided. An official writer, Krzhyzhanovsky, estimated in December 1927 that the overall targets of the First Five-Year Plan§ would require investments amounting to 17 billion gold roubles.[22] By concentrating this investment effort into 5 to 7 years (1928–1934) instead of spreading it over 10 to 12 (as had originally been envisaged and as would have been possible if accelerated industrialisation had begun in1923–1924), the yearly burden was made much heavier. Being determined, moreover, to keep short the period

* "From the end of 1927 a falling off in the collection of corn was observed which nothing [!] had warned would happen. Whereas in the last three months of 1926 4·9 million tons of cereals had been collected, the three corresponding months of 1927 gave only 2·7 million, i.e. 2·2 million tons less."[19] The statement that "nothing had warned" that this would happen is rich. The Opposition had been warning the country of this danger for years, as can be seen from the quotations from its opponents which we have just reproduced.

† Here is a typical example of this underestimation, on the part of Stalin himself.

"Everyone knows the outcry and panic raised by the opposition about a growth of differentiation [among the peasantry]. Everyone knows that no-one raised a greater panic over the growth of small private capital in the countryside than the opposition. But what is really happening? What is happening is this: In the first place, the facts show that differentiation is taking place in our country in very peculiar forms—not through the 'melting away' of the middle peasant, but, on the contrary, through an increase in his numbers, while the extreme poles are considerably diminishing. . . . In the second place—and this is the chief thing—the growth of small private capital in the countryside is counter-balanced, and more than counter-balanced by so decisive a factor as the development of our industry . . ."[20]

‡ Furthermore, this super-industrialisation led to the lowering of the real wages of the workers, an eventuality which Preobrazhensky had explicitly ruled out when he studied "socialist primitive accumulation".[21]

§ These were the targets that this same Krzhyzhanovsky had defined already at the 8th All-Russia Congress of Soviets in December 1920. These targets were achieved, respectively, in 1930 (railways), 1931 (electric power), 1932 (coal), 1933 (steel), 1934 (iron-ore, cast iron, manganese) and 1937 (copper).

of experiment and to curtail delays, the régime excessively increased the costs of the undertaking; wastage and losses were substantial.

Finally, huge resources remained unused and were later destroyed (e.g. by the killing off of their cattle by the peasants).* The fund of peasant accumulation alone which was totally lost to the national economy can be estimated at 4 to 5 billion gold roubles.[23] If to this be added the possibility of making annual savings by cutting down the overgrown administrative machine—savings which were estimated at one billion gold roubles a year—one can conclude that results a great deal more substantial than those of the first two Five-Year Plans could have been achieved without necessarily involving the terrible sacrifices rendered by the Soviet people during 1929–1933.

However that may be, the rate of increase of industrial production, at first fixed at the too low annual figure of between 5 and 8 to 9 per cent,[24] was now raised to 20 per cent, later even to 23·7 per cent, for large-scale industry. The first Five-Year Plan was put under way. Then, on 1st February, 1930, the government officially launched the policy of compulsory collectivisation, which had been announced in a speech of Stalin's on 27th December, 1929. The kulaks were "liquidated", that is, they were transported by millions to Siberia. The number of holdings collectivised leapt from 3·9 per cent in 1929 to 52·7 per cent in 1931, 61·5 per cent in 1934, and 93 per cent in 1937.[25] Twenty-five million small agricultural enterprises were merged into 240,000 producers' co-operatives, collective farms, called *Kolkhozy*, and 4,000 state farms, called *sovkhozy*.

However, Soviet industry was as yet unable to equip these collectivised agricultural enterprises with modern agricultural machinery. The delay in applying industrialisation measures—the tractor works at Tsaritsin (Stalingrad, Volgograd), which it had been decided to set up in 1924, was not built until 1929![26]—intensified this incapacity. Moreover, compulsory collectivisation came up against stubborn resistance on the part of the bulk of the peasantry. They set themselves to slaughter their animals on a grand scale during the years 1929–

* Official statistics implicitly admit this. Here is the evolution of the Soviet cattle population according to the statistical handbook: *The U.S.S.R. Economy:*

	Horned cattle	*Of which, cows*	*Pigs*	*Sheep and goats*
1928	60·1	29·3	22·0	107·0
1930	50·6	28·5	14·2(!)	93·3
1931	42·5	24·5	11·7(!)	68·1(!)
1932	38·3	22·3	10·9	47·6(!)
1933	33·5	19·4	9·9	37·3

The slaughter was thus most disastrous in 1930 (pigs) and 1931 (horned cattle and sheep). A frightful famine ensued in 1932–1933.

1933.[27] Agriculture was confronted with a growing problem of inadequate means of traction. The government was again obliged to retreat.

In 1935 the new collective-farm charter gave the peasants the right to perpetual use of a small piece of private land, which varied in size, from region to region, between 0·25 and 1 hectare. They likewise received the right to acquire as private property a house, a cow, lambs, goats and poultry.[28] These measures soon made possible a substantial increase in agricultural production, and especially in the number of livestock, while at the same time the supply of tractors to the countryside increased.

The outbreak of war in 1941 was the signal for an all-round revenge by the country upon the town. The shortage of food products, especially after the loss of the richest agricultural areas of the western part of the U.S.S.R., enabled the peasants to push up and up the prices they demanded for their products. In order to stimulate the increase of food production and improve food supplies to the towns, the government permitted the unhindered development of *collective-farm markets*, where the peasants freely sold their products to the public. Their share in total retail trade grew from 15·9 per cent in 1939 to 44·5 per cent in 1942–1943.[29] In this way a great deal of money was accumulated in the countryside: "millionaire" collective farmers made their appearance. The state endeavoured to channel off this money by issuing bonds with guaranteed life interest. But new kulaks began to get round the collective-farm charter and take possession of considerable areas of land belonging to the collective farms. Immediately after the war the amount of land affected was estimated at nearly 5 million hectares.[30]

After the end of the war and the overcoming of the reconversion crisis, the state took the agricultural situation in hand. A strict currency reform creamed off the surplus purchasing power accumulated by the peasants. A systematic campaign was undertaken against the small private holdings of the collective farmers, and especially against their ownership of animals.* Measures for the concentration of the collective farms and the establishment of "agro-towns" intensified still further this offensive in the rural areas. Coming up against the peasants' passive resistance, the stagnation of agricultural production and a fresh dangerous fall in the number of livestock, the government retreated once more (summer 1953) and once more strove to stimulate

* The review *Sovietskoye Gosudarstvo i Pravo*[31] wrote that "in the near future" the collective farmers would give up their private holdings. The decrees on the concentration of the collective farms envisaged the division of these holdings into two parts, the larger of which would be situated somewhere a long way away from the peasant's house. In March 1951 this measure had to be given up in a hurry, owing to the peasants' resistance to its implementation. But, meanwhile, the number of households possessing a cow fell from 69 per cent of all collective farmers to 55 per cent in 1953. In 1953 the total number of horned cattle had fallen below the level of 1950.[32]

the private initiative and interest of the collective farmers. After Stalin's death, the agricultural policy of the Soviet leaders underwent a series of turns which are described below.

The specific structure of the Soviet economy at this time can be defined by the following features:

(*a*) Industry, wholesale trade, and the greater part of retail trade, together with the whole of external trade, the banks and the means of transport, are nationalised. In practice, all the mechanical means of production and exchange are state property, with the exception of lorries belonging to the collective farms.

(*b*) A small sector of agriculture is also nationalised *(sovkhozy).*

(*c*) Most agricultural enterprises are producers' co-operatives, the land being nationalised but its usufruct surrendered to the collective farms for an indefinite period. The farm implements and animals of the collective farm are co-operative property. But the tractors and agricultural machinery are state property, lent to the *kolkhozy* by the M.T.S. (machinery and tractor stations) in return for payments in kind. (In 1957–1958 the tractors and agricultural machines were sold to the collective farms.)

(*d*) A fairly substantial sector of co-operative enterprise, not state-owned, also survives in the craft sphere and in retail trade. (In 1962 the co-operative sector accounted for 28·4 per cent of the total retail turnover.)

(*e*) There is also still a private sector in agriculture which includes, besides a small number of individual farms, the holdings left in the possession of each peasant household within the *kolkhozy*, together with a substantial proportion of the farm animals, which are the private property of these same peasant households. In 1937 these individual holdings represented 4 per cent of the sown area; but the total income derived by the peasants from these holdings and from their privately-owned animals represented a substantial proportion of the total product of Soviet agriculture.[33] The private sector included, indeed, in 1938, 50 per cent of all horned cattle, 55 per cent of all pigs, and 40 per cent of all goats and sheep in the U.S.S.R. After the war, in 1948, these percentages shrank to 35 per cent, 20 per cent and 20 per cent respectively,[34] not so much through an increase in the numbers of collective farm animals as through a decline in the numbers of privately-owned animals. But the private sector still possessed in 1953 half of all the cows in the U.S.S.R.[35] At the end of 1964 it had 28·8 per cent of all horned cattle (including 41·7 per cent of all cows), 27·5 per cent of all pigs, and 24·1 per cent of all sheep and goats.[36]*

* The state sector in agriculture (*sovkhozy*) was responsible in 1965 for 36 per cent of the country's entire agricultural production.

A large private sector continues to exist in the sphere of housing, made up of all the dwellings of the collective-farm peasants, together with a share of the habitable area of the towns which varied between 52·3 per cent in 1926, 36·6 per cent in 1940, 33·7 per cent in 1950, 32·9 per cent in 1955 and 38·4 per cent in 1961.

What the Five-Year Plans achieved

Thanks to this distinctive structure of the economy and what it implied—overall planning and a monopoly of foreign trade—a remarkable development of the productive forces was achieved. There is no better way of showing this than by giving the figures for the output of the chief industrial products:

	1913	*1928*	*1932*	*1937*	*1940*	*1946*	*1950*	*1955*	*1960*	*1965*
Coal and lignite (in million tons)	29·1	35·5	64·4	128	166	164	261	391	513	578
Crude Oil (in million tons)	9·2	11·6	21·4	28·5	31	21·7	37·8	70·8	148	243
Electric power (in billion kwh)	1·9	5·0	13·5	36·2	48·3	48·6	91·2	170·1	292	507
Pig iron (in million tons)	4·2	3·3	6·2	14·5	14·9	10·0	19·2	33·3	49	66·2
Crude steel (in million tons)	4·2	4·3	5·9	17·7	18·3	13·3	27·3	45	71	91
Metal-cutting machine-tools (in thou. units)	1·5	2·0	19·7	48·5	58·4	—	70·6	117·8	154	185
Steam and gas turbines (in thou. kwh.)	5·9	35·7	239	1,068	972	—	2,381	4,060	9,200	14,600
Motor vehicles (in thousands)	—	0·7	23·9	200	145·4	120·8	362·9	445·3	524	616
Radio & T.V. receivers (in thousands)	—	—	30	194	161	—	1,083	4,024	5,900	8,900
Tractors (in thou. units)	—	1·3	48·9	51	31·6	13·3	108·8	163·4	238	355
Cement (in million tons)	1·52	1·8	3·48	5·5	5·7	3·4	10·2	22·5	45·5	72·4
Window glass (in mill. sq. metres)	23·7	34·2	29·5	79·3	44·4	—	76·9	99·8	147	197
Soap (in thou. tons)	128	311	357	495	700	245	816	1,075	1,500	1,900
Woollens (in million metres)	103	97	91	105	120	71	167	200	280	466*
Cottons (in million metres)	2,582	2,678	2,694	3,448	3,954	1,900	3,899	5,904	7,200	5,500†
Leather footwear (in million pairs)	60	58	86·9	183	211	81	203	274	419	486
Crystallised sugar (in million tons)	1·35	1·28	0·8	2·4	2·16	0·47	2·5	3·4	6	8·9
Paper (in thou. tons)	197	284	471·2	832	812	517	1,193	1,862	2,400	3,400

These figures show at a glance the long road travelled by the U.S.S.R. since the victory of the October revolution. From a backward and essentially agricultural country the U.S.S.R. has become, at least as regards overall output, the second industrial power in the world, in particular for basic raw materials, electric power and machine-tools,

* In million square metres. The equivalent figure for 1960 is 440 million square metres.

† In million square metres. The equivalent figure for 1960 is 4,800 million square metres.

its output of which exceeds the combined output of Britain and Germany. The progress made by Soviet industry is not to be explained primarily by the enormous backwardness it had to overcome, in comparison with the industry of the most advanced capitalist countries. It has continued after this backwardness has already been, by and large, overcome. This progress is now proceeding especially in the directions of increase and modernisation of the country's stock of machines and of striving to automatise production. It is in this sphere that the most remarkable successes of the fourth and fifth Five-Year Plans have been won. The U.S.S.R. possessed in 1953 a stock of 1,300,000 machine tools of all kinds, double what it had before the war, whereas the second capitalist power, Britain, had in 1950 only 880,000. The American stock amounted at the same period to 1,800,000, superior in quality to the Soviet ones.

Considered, however, not in absolute figures but in relative figures, that is, per head of population, the backwardness of Soviet industry is far from having been overcome.

The annual productive capacity of *steel* stood in 1964 at 820 kg. per head of population in the U.S.A., at 1,105 kg. in Belgium and Luxemburg, at 660 kg. in West Germany, and at 375 kg. in the U.S.S.R. Here is a comparative table for several basic industrial products:

PRODUCTION PER HEAD OF POPULATION IN 1964[37]

	France	*Italy*	*Britain*	*West Germany*	*U.S.A.*	*U.S.S.R.*
Electric power (kwh.)	2,051	1,474	3,418	2,835	5,984	2,013
Sulphuric acid (kg.)	56	54	59	62	108	34
Cement (kg.)	448	436	315	579	319	285

It will be seen that production per head of population in the U.S.S.R. remains very much behind that in the U.S.A., Britain and West Germany, but that France could be surpassed fairly quickly and that Italy has already been surpassed in respect of some basic indices.*

The gap between Soviet production per head of population and that of the most advanced capitalist countries is even more considerable in the sphere of private consumption.

* This estimate, made in 1961, was confirmed three years later by Professor Abram Bergson, who evaluated as follows consumption per head of population in the U.S.S.R. and in Italy for the year 1955, in U.S. dollars of that year:

	U.S.S.R.	*Italy*
All products	492	524
Foodstuffs	193	216
Clothing	29	38
Durable consumer goods	7	4
Housing	27	31
Remainder, including education and health	236	235[38]

CONSUMPTION PER HEAD OF POPULATION IN 1962-1963

	U.S.S.R.	*U.S.A.*	*Britain*	*West Germany*	*France*
Meat and bacon (kg.)	39	85	71·5	64·5	78
Refined sugar (kg.)	36	40·6	45·9	32·0	31·6
Eggs (kg.)	7	18·7	14·1	12·6	11·2
Cotton fabrics (kg.)	3·5	7·2	2·9	4·6	4·7
Artificial and synthetic textiles (kg.)	1·6	6·7	6·3	7·5	5·0
Leather shoes	2·1	3·7	2·8	2·1	2·3
Consumption of power (in equivalent kg. of coal)	3,046	8,263	4,948	3,884	2,591

In respect of durable consumer goods and housing, the gap is even more marked. On 1st January, 1965 there were in the U.S.S.R. 52 T.V. receiving sets per thousand inhabitants, as compared with 334 in the U.S.A., 255 in Canada and Sweden, 242 in Britain, 170 in West Germany, 150 in Holland and Belgium, 110 in France and 100 in Italy. On the other hand, at the end of 1963 there were in the U.S.S.R. 205 doctors per 100,000 inhabitants, as against 170 in Italy and Austria, 150 in the U.S.A., 144 in West Germany, 110 in Britain, France and Holland, and 101 in Sweden. Per 100,000 inhabitants there were 900 hospital beds in the U.S.S.R. and the U.S.A., 937 in Italy, 981 in France and Canada, 1,022 in Britain, 1,064 in West Germany, 1,083 in Austria and 1,600 in Sweden.

Backwardness in development of consumer goods industries as compared with capital goods production was a general characteristic of Soviet planning in the Stalin era. It followed from a choice of priorities cold-bloodedly decided by the leaders of the U.S.S.R. According to Malenkov, between 1929 and 1953 638 billion roubles were invested in heavy industry and 193 billion roubles in transport, compared with only 72 billion roubles in light industry. As a result, between 1928 and 1937 production of coal, cast-iron and steel was quadrupled, and that of electric power increased sevenfold; between 1937 and 1950 production of coal and electric power doubled again, while that of iron and steel grew by 50 per cent and 60 per cent respectively. During the same periods, however, production of woollens, cottons and sugar only increased by 10, 20 and 75 per cent, between 1928 and 1937, and by 60, 10 and 4 per cent, between 1937 and 1950.[39]

Housing conditions were especially lamentable. Between 1913 and 1940 the building of houses did not keep pace with the influx of population into the towns. The effective habitable area contracted from 7·3 square metres per person in 1913 to 6·9 square metres in 1940, to reach the 1913 level again only in 1950 and attain 7·7 square metres in 1955, these figures applying to the towns only.[40] During the 1960's, in new housing projects, an area of only 8 square metres per person was allowed for; the plan envisages over 11 million people finding new housing in the 90 million square metres to be built in 1966.[41] Density of occupation was 1·6 persons to a room in 1960, as compared with 1·0 in France and 1·1 in Italy (the two worst-housed countries in the West) in 1961–1962 0·9 in West Germany, 0·9 in Holland, 0·7 in Britain and 0·6 in Belgium—with, moreover, rooms in those countries larger than the Soviet ones.[42]

The standard of living of the Soviet citizen thus remains very much below the level which would be possible given the degree of development at present reached in the Soviet Union. Industrialisation has been carried out first and foremost at the expense of the standard of consumption of the masses: *financing the plan means enclosing consumption within an iron ring,* wrote the Soviet journal *Planovoye Khozyaistvo* in 1929.[43]*

The social character of the Soviet economy

On the basis of these facts it is possible to make an appreciation of the character of the Soviet economy and its laws of development. Contrary to what is alleged by a number of sociologists who try to make use of the Marxist method of analysis,† the Soviet economy does not display any of the *fundamental* aspects of capitalist economy. It is only forms and superficial phenomena that can lead the observer astray in seeking to define the social character of this economy.

It is true that rapid industrialisation takes the form of a "primitive accumulation" achieved by a forcible levy on consumption by the

* As regards the financial technique employed, it was done in two ways. The peasants were compelled to supply about one-third of their produce to the state, either for nothing or at ridiculously low prices, which covered only a small part of their cost of production. The workers were compelled to buy all their consumer goods in state shops, at prices hugely inflated by the turnover tax. This tax, which as a rule provides the state with from 50 per cent to 65 per cent of its revenue, is derived mostly from the sale of articles of prime necessity. In 1939, according to official Soviet sources, 52·6 per cent of the return from the turnover tax was obtained from sales of meat, dairy produce, products of the food industry and products of the textile industry.[44] In 1949 the prices of basic consumer goods were further burdened with a tax of at least 100 per cent; in the case of salt, this tax amounted to 900–1,000 per cent! Price reductions made since then have somewhat reduced this burden; but it remains exorbitant. In 1958, 42 per cent of the return from the turnover tax, amounting to 250 milliard roubles, came from the sale of consumer goods to households.[45] It should not be forgotten that this is merely a *technique*, which could have been replaced by, say, the fixing of nominal wages at a lower rate, or prices of raw materials and equipment for light industry at a higher rate.

† See Ygael Gluckstein [Tony Cliff], *The Nature of Stalinist Russia*; D. Dallin, *The Real Soviet Russia*; Amedeo Bordiga, *Dialogue with Stalin*, etc.

workers and peasants, just as capitalist primitive accumulation was based on an increase in the poverty of the people.* But, unless there is a large-scale contribution from outside, no accelerated accumulation can be carried out otherwise than by an increase in the social surplus product not consumed by the producers, whatever the form of society in which this happens. There is nothing specifically capitalist in that.

Capitalist accumulation is an accumulation of *capital*, that is, a capitalisation of surplus value with as its aim the production of more surplus value by this capital. Profit remains the purpose and driving force of capitalist production. Soviet accumulation is an accumulation of means of production as *use-values*. Profit is neither the purpose nor the chief driving force of production. It is merely an accessory instrument in the hands of the state in order to facilitate fulfilment of the plan and checking on how it is being carried out by each enterprise.

Because capitalist production is production for profit it is essentially production based on competition for conquest of markets. Even if concentration of capital has reached its highest point and the monopolies wield supreme power, competition continues in both old forms and new. It is this competition that determines the *anarchy* of capitalist production. Private decisions, taken independently of each other, decide the amount and rate of growth of production and accumulation. All "organisation" of capitalist economy is thereby doomed to remain fragmentary and insufficient.

Soviet planning, in contrast to this, is real planning, insofar as the totality of industrial means of production is in the hands of the state, which can thus centrally decide the level and rate of growth of production and accumulation. Elements of anarchy continue, it is true, within the framework of this planning, but their role is precisely comparable to that of the elements of "planning" in the capitalist economy: they modify but do not abolish the fundamental social characteristics of the economy.

Capitalist economy, subject to the tyranny of profit, develops in accordance with quite precise laws—tendency of the rate of profit to fall; flow of capital into sectors with rates of profit higher than average; concentration and centralisation of capital leading to the seeking of monopoly super-profit, etc.—from which result the particular features of its present-day phase. Soviet economy escapes completely from

* In a speech to the Central Committee of the C.P.S.U., Stalin declared in 1928 that industrialisation would impose a heavy tribute on the peasantry. This speech was not published until 1949, in Volume XI of his *Works*.[46] We deal with the theoretical problems raised by this historical fact, and the limited effectiveness of this technique of industrialisation in Chapter 16, section on "Sources of socialist accumulation" and "Maximum and optimum rates of accumulation".

these laws and particular features. Despite the immense territory open to it in Asia, beyond its frontiers, it "exports" thither very little "capital", though the "rate of profit" is certainly higher in those countries, owing to the lower "organic composition of capital" and the lower cost of labour (countries like China, North Korea, Outer Mongolia, North Vietnam, etc.). Despite the huge accumulation of "capital" in heavy industry, investments continue to go primarily into this sector, instead of spilling over more and more into the marginal sectors, as happens in capitalist economy in its declining phase. Artificial limitation of production, agricultural Malthusianism, suppression of technical inventions, not to mention periodical crises of "overproduction", partial stoppage of production, or even destruction of part of production—all these phenomena which are characteristic of capitalist economy as a whole, including the economies of capitalist countries less developed industrially than the U.S.S.R. (Japan, Italy, Argentina, Brazil, etc.) are not to be found in Soviet economy, and this has been so since 1927, that is, for a third of a century.

World capitalist economy forms a whole. Even countries which are most autarkic in policy—Japan on the eve of the Second World War, Nazi Germany, Italy in the period of the League of Nations "sanctions", etc.—are unable to exempt themselves from the general conjuncture of the world capitalist market. The outbreak of the crisis of 1929, and then that of 1938, left a deep mark on the economies of *all* the capitalist countries, not excluding the "autarkic" ones.

The Soviet economy, however, while retaining definite links with world capitalist economy, is exempt from the fluctuations in the conjuncture of world economy. Indeed, periods of most remarkable advance by Soviet economy have coincided with periods of crisis, depression or stagnation in world capitalist economy.

This being so, it is talking at cross purposes to declare that the capitalist nature of Soviet economy is shown by its competition with the other great powers (U.S.A., Germany, Japan, etc.), "competition" which primarily takes a military form. It is clear that any non-capitalist economy established nowadays over a large part of the globe would find itself in latent hostility with the surrounding capitalist world. Geographical, military, economic and commercial necessities follow automatically from such a situation. But this is not capitalist competition, which is competition for markets and profit; rather is it a "competition" which results precisely from the different social characters of the U.S.S.R. and the capitalist world, which confront each other.

Similarly, it is erroneous to regard the Soviet economy merely as the "culmination" of developmental tendencies which can be seen in present-day capitalist economy: tendencies towards total monopolisation of industry; abolition of "classical" private property; merging of the economy with the state, growing "state interference" in the economy, and so on. Actually, Soviet economy is the *dialectical negation* of these tendencies.*

In present-day capitalist economy the "managed economy", the increasing fusion of state and economy, the occasional violation of sacrosanct private property, all exist *for the benefit of monopoly capital*, for the defence, protection and guaranteeing of its profits. The merging of the state with the economy is at bottom nothing but the total domination of the economy by the private monopolies, which make use of the state machine. In the U.S.S.R., however, the state management of the economy, the abolition of the right to private ownership of the means of production, the fusion of economy and state, have all taken place by way of *the expropriation and destruction of the bourgeoisie as a class*. Present-day capitalism is capitalism which has carried to the furthest limit its own developmental tendencies. Soviet society is the destruction, the negation, of the chief characteristics of capitalist society.

Structural revolutions are always the best indices of the social character of an economic system. The incorporation of the territory of one capitalist country into another capitalist country is not accompanied by any revolution in social structure: the German occupation of France and the occupation of Germany by the Americans, British and French showed this quite clearly.

In contrast, the German occupation of the Western provinces of the U.S.S.R., and later the incorporation of the so-called "people's democracies" into the zone of Soviet influence, involved qualitative structural changes. It is unnecessary to speak of the destruction of capitalism in Eastern Europe; the facts are known to all. Less known are the measures taken by the Nazi occupiers in the U.S.S.R. to reintroduce private ownership of the means of production. The aluminium works at Zaporozhe was seized by the Vereinigte Aluminiumwerke trust. Within the framework of the Berg und Hüttenwerke Ost G.m.b.H., financed by the three biggest German banks, the Flick Konzern took over, jointly with the Reichswerke Hermann Goering, the steel works of the Donets Basin, under the title of Dnjepr Stahl G.m.b.H. The Siegener Maschinenbau A.G. took over the Voroshilov works at Dniepropetrovsk, the Krupp trust grabbed two factories at Mariupol, two at Kramatorskaya and one at Dniepropetrovsk. It was accorded the right to manage these enterprises and draw profit from

* Cf. Karl Marx speaks in Volume III of *Capital* about joint-stock companies which, in practice, involve the expropriation of small and medium capitalists, and adds: "However, this expropriation appears within the capitalist system in a contradictory form, as appropriation of social property by a few". And again: "The capitalist stock companies, as much as the co-operative factories, should be considered as transitional forms from the capitalist mode of production to the associated one, with the only distinction that the antagonism is resolved negatively in the one and positively in the other".[47]

them, with complete ownership promised for after the end of the war.[48] In 1943 Krupp dismantled the entire electric steel works at Mariupol and transported it to Breslau. The I.G. Farben trust organised the Chemie Gesellschaft Ost G.m.b.H. and the Stickstoff Ost A.G. in Russia. In the daily newspaper *Frankfurter Zeitung* we find, within a space of three days in May 1943, reports of the establishment of seven large-scale German private undertakings in the occupied areas of Russia.[49]

The theories according to which the Soviet economy represents an economy of a new type, neither capitalist nor socialist, a "managerial" society (Burnham), a bureaucratic society (L. Laurat), bureaucratic collectivism (Bruno Rizzi, Shachtman, etc.), or a society run by a "new class" (Milovan Djilas) cannot be accepted either. The supporters of these theories rightly deny that the Soviet mode of production is capitalist in character. But they do not grasp that what is non-socialist in the U.S.S.R.—extensive social inequality, bureaucratic privilege, lack of self-determination for the producers, etc.—represents a product of the country's *capitalist* past and *capitalist* environment.

They see these survivals as the rudiments of a future society. They are unable, however, to offer an exact characterisation of this society, to define a particular dynamic for it, beyond uttering platitudes or absurd allegations which are continually being contradicted by events.* They cannot say what mode of production qualitatively different from that of the U.S.S.R. would correspond to the era of transition from capitalism to socialism.

In reality, Soviet economy embodies *contradictory* features, which neither its apologists nor its vulgar critics have been able to bring together into a comprehensive conception.

The apologists point to the absence of private ownership of the means of production, the constant and rapid progress of the productive forces† and of the general level of technical skill and culture of the population; all this does indeed prove that the U.S.S.R. is not a capitalist country. It remains nevertheless mistaken to draw the conclusion that the U.S.S.R. is already a socialist country, although classes

* The noisiest of these allegations was that put forward by Bruno Rizzi and taken up by James Burnham in *The Managerial Revolution*: the Soviet-German alliance was said to be a stable alliance between two social systems of the same kind. The Nazi attack on the U.S.S.R and the extremely clear-cut and savage aspect of a struggle between two different social systems which was assumed by the war between the U.S.S.R. and Germany, showed the complete inanity of this theory.

† A conference of American scholars, interpreting very critically the Soviet statistical data, came to the conclusion that the rate of progress of industrial production in the U.S.S.R. has kept up since the first thrusts of rapid industrialisation, and considerably exceeds the rate of industrialisation of all the other countries, including the U.S.A. in the period after the Civil War.[50]

(the working class and the peasantry) continue to exist, with interests which are antagonistic historically and sometimes even immediately, although social inequality has much increased, and although the level of development of the productive forces still remains below the level reached by the most advanced capitalist country.

The advocates of the "state capitalism" theory show correctly the *bourgeois* character of the phenomena of inequality, of the norms of payment for work that exist in the U.S.S.R. But they generalise falsely when they describe the Soviet mode of production as being likewise capitalist. The advocates of the theory of "bureaucratic collectivism" show clearly the non-capitalist nature of the Soviet mode of production. But they generalise falsely when they deny the basically bourgeois nature of the norms of distribution. In fact, Soviet economy is marked *by the contradictory combination of a non-capitalist mode of production and a still basically bourgeois mode of distribution.** Such a contradictory combination points to an economic system which has already gone beyond capitalism but which has not yet reached socialism, a system which is passing through a *period of transition* between capitalism and socialism, during which, as Lenin already showed, the economy inevitably combines features of the past with features of the future.[52]

The "economic categories" in the U.S.S.R.

It is from such a characterisation of the Soviet economy as a contradictory economy of the period of transition from capitalism to socialism that we must start in order to find an adequate answer to the thorny question, so much debated for years both inside and outside the U.S.S.R., of the survival of the "economic categories": commodity, value, money, price, wages, profit, etc.

In a socialist society the products of human labour have a directly social character and thus have no value.† They are not commodities

* Cf. Engels in *Anti-Dühring*: "Each new mode of production or form of exchange is at first retarded not only by the old forms and the political associations which correspond to these, but also by the old mode of distribution; it can only secure the distribution which is essential to it in the course of a long struggle". Cf. also Marx, in *Critique of the Gotha Programme*: "What we have to deal with here is a communist society, not as it has *developed* on its own foundations, but, on the contrary, just as it emerges from capitalist society . . . Hence, *equal right* here is still in principle—*bourgeois right* . . ."[51]

† Cf. Marx: "Within the co-operative society based on common ownership of the means of production, the producers do not exchange their products; just as little does the labour employed on the products appear here *as the value* of these products . . . since now, in contrast to capitalist society, individual labour no longer exists in an indirect fashion but directly as a component of the total labour."[53] And Engels: "The seizure of the means of production by society puts an end to commodity production . . . From the moment when society enters into possession of the means of production and uses them in direct

but use-values, produced for the satisfaction of human needs. Such a society will not know wages at all, and will know "prices" only for the purpose of social accounting. The existence of the "economic categories" in the U.S.S.R. shows clearly that this country is not yet a socialist society.

But commodity production extends in the history of mankind's economy well beyond the capitalist era. It begins with petty commodity production within a patriarchal or slaveowning economy. It vanishes only with the production of an abundance of use-values in a fully-developed socialist economy. Commodity production cannot be "abolished" artificially. It can only wither away progressively, in proportion as the economy becomes capable of ensuring to each human being the satisfaction of his fundamental needs and as, thereby, distribution ceases to have to be based on exchange, on exactly measured counterpayment.*

So long as production does not ensure such a satisfaction of fundamental human needs, the central economic problem remains that of *sharing scarcity* (in a more or less relative sense) of consumer goods, a form of distribution which must be regulated by objective criteria. Throughout the whole of this period of transition between capitalism

association for production, the labour of each individual, however varied its specifically useful character may be, is immediately and directly social labour."[54]

* Soviet economists have for a long time been discussing the causes of this survival of "commodity categories" in the U.S.S.R., notably during meetings of academicians in 1951, in December 1956 and in June 1958. The view accepted in the Stalin era reduced the origin of the categories to the existence of "two forms of property" in the U.S.S.R. Since then, Ostrovityanov, Gatovsky, Kronrod and others have defended a view which comes close to the one we outline here. Cf., for example, Gatovsky's formulation: "The possibility of going over to direct distribution of goods will exist . . . when society no longer needs to regulate the quantity of labour and of needs."[55] Recently, Charles Bettelheim has offered a new explanation of the survival of commodity categories in the U.S.S.R. He states that this survival is due to an inadequate level of development of the productive forces, which renders the state (the state sector of the economy) unable to control effectively and thoroughly both means of production and products.[56] We agree with him, of course, on the fundamental point: the commodity categories survive in the U.S.S.R. because of the inadequacy of the present level of development of the productive forces. But his reasoning about "effective and thorough control of both means of production and products" seems rather scholastic. Bettelheim means by this that the juridical form does not *completely* correspond to the economic reality, that is, that *part* of the production of the state sector continues to escape from control by the state. He does not seem to realise that the juridical form—which is necessarily abstract—*never* corresponds, in any society, one hundred per cent, mechanically, to economic reality, which is inevitably contradictory; and that, far from increasing, the state's direct control over all products is doomed to decrease in proportion as the development of the productive forces makes possible a gradual approach to abundance and the withering away of commodity production.

and socialism, *exchange* between human labour and the consumer goods produced by this labour governs the sphere of distribution. Exchange implies commodity production. *The shortage of use-values prolongs the life of exchange value.*

The survival—partial or general—of commodity production in the era of transition between capitalism and socialism is a characteristic feature of this era. But this survival normally affects only the consumer goods sector (or at most the agricultural and craft periphery of the capital goods sector). To the extent that society takes over industry, banks, transport and chief centres of distribution, the means of production and exchange which are produced in these nationalised enterprises lose their character as commodities and are no longer anything but use-values. Even if these use-values are formally "sold" by one state enterprise to another, this is a mere matter of accounting and general checking on the execution of the plan, for the economy as a whole and for each economic unit. The difference is expressed even in money form. Consumer goods are bought with banknotes; capital goods circulate purely by means of representative money, a mere accounting device. It is forbidden to buy them for cash, except in the case of small tools.[57]

That is how things are in the U.S.S.R. The capital goods intended for the collective-farm market; the consumer goods not consumed by their producers; the industrial and craft consumer goods not kept back by the state* possess all the outstanding features of commodities. Only their total amount is "planned." Their distribution among the different consumption areas, between town and country, between different strata of consumers, is carried out blindly, according to the laws of the market, "corrected" at most by bureaucratic arbitrariness.[59]† As for capital goods, especially those produced by nationalised industry, they have lost their commodity character, since not only their overall production but also their precise distribution is fixed in advance by the plan.

In fact, capital goods are grouped into three categories, as regards the way they are distributed:

(*a*) Basic goods, 1,600 products in all, which constitute the chief raw materials (steel and its alloys, coal, oil, ferrous and non-ferrous metals, rubber, the chief chemical products, electric power) the principal types of machinery, and motor-driven vehicles. These basic goods

* Notably for its armed forces and for export. Hubbard shows that in 1937 73·9 per cent of industrial consumer goods were intended for the market.[58]

† "The trouble is that our business executives and planners, with few exceptions, are poorly acquainted with the operations of the law of value, do not study them, and are unable to take account of them in their calculations", wrote Stalin. And further on he accused these specialists of showing the arbitrariness of " 'economic' adventurers".[60]

are not sold by enterprises or groups of enterprises but are directly allocated, by the Council of Ministers, among the enterprises which need them, in accordance with quantities laid down by the plan and against purely formal payment in representative money.

(*b*) Goods allocated by percentage quota, namely, the more plentiful and less essential products (wood, glass, matches, electric fans, smoothing irons, etc.) which are shared out by the various ministries, the plan restricting itself to laying down the quota of total production to be allocated by industrial sector or region. So long as these quotas are not exceeded, each factory can acquire these products by buying them from a trading agency of the appropriate ministry.

(*c*) Goods distributed in a decentralised way, which can be brought directly from the producers by the enterprises: agricultural and craft products, certain products of local industry, etc.[61]*

So long as the problem of distribution remains dominated by the relative shortage of consumer goods, money continues to be the most efficient device for carrying out this distribution. It will be so in every society of the transition period, where money, by retaining the possibility of a certain degree of choice on the part of the consumers, constitutes a safeguard—limited but real—against total invasion by regulating bureaucratism. Money likewise remains the simplest device for measuring the efficiency of enterprises by means of comparison between costs of production; it is indeed the most flexible instrument for economic measurement in all spheres.

But the money that survives in the transition period loses a series of fundamental functions which were characteristic of it in capitalist economy. It ceases to be automatically transformable into capital under the given market conditions, since private acquisition of means of production is forbidden (industry) or greatly restricted (agriculture, crafts, trade). Thereby, private purchase of labour power, as a commodity producing surplus-value, disappears, and money ceases to be automatically a source of interest, of income. It ceases to be the initial

* After the reorganisation of industrial management and the creation of the *sovnarkhozy* in 1957, the allocation of raw materials and equipment in three categories was retained. The allocation of goods of the first category (those said to be "put into a special fund") has to be worked out in advance and approved by the Council of Ministers of the Soviet Union. The allocation of goods of the second category is subject to central supervision and has to be approved by Gosplan. The products of these two categories must be "sold" by the Gosplan organs, even if the recipient is in the same *sovnarkhozy* as the "seller".[62]

Some Soviet economists have, however, suddenly insisted that capital goods are also "commodities". This theoretical "discovery" has above all a practical aim: that of demanding more autonomy for plant managers in matters of investment. Cf. Khrushchev's significant linguistic deviation when, addressing the 21st Congress of the CPSU, he spoke again and again of "capital investments" in the U.S.S.R.

and final form of capital, towards which the whole of economic activity is directed. For the realisation of surplus-value, which, in a capitalist régime, is possible only in the form of money, is substituted direct appropriation by the state of the social surplus product, in the form of use-values.* Money becomes capital again only in the elementary process of primitive accumulation in agriculture and petty trade, whether legally or illegally.† State constraint is needed to check this process, which is favoured by the automatism of the economy so long as conditions of shortage of consumer goods prevail.

Prices as a whole continue to fluctuate around value, since calculation in money terms of the average cost of production in each branch of industry is taken as the basis for economic accounting in all fields. But the formation of prices no longer takes place automatically. The law of value, indeed, does not apply in a "pure" way except in petty commodity production. In capitalist society the law of value is refracted through the prism of profit, of the ebb and flow of capital favouring the sectors where the highest rate of profit is obtained, of the equalisation of the rate of profit and the formation of prices of production. In the economy of the transition period the law of value is refracted through the prism of the plan. Prices become devices for planning, for dividing the national income between productive and unproductive consumption, for the allotment of investments between different sectors of the economy.

In Soviet society the selling prices of industrial products are formed by adding to the cost of production a rate of profit and a differential turnover tax, previously laid down by the plan.

"Price 'does not represent the money equivalent of the cost of pro-

* This appropriation is actually accomplished as soon as the capital goods are produced and have arrived at their destination (assuming they have not been stolen on the way, or sold on the black market, or damaged in transit, or uselessly hoarded in a store). The *accumulated* part of the social surplus product is in fact the entire output of capital goods, less the fraction which serves to replace worn-out machinery and to renew stocks of raw material.

However, O. Lange is wrong when he says[69] that accumulation "is carried out automatically, as a sheer result of the allocation of the physical resources" between the two sectors. Besides the risks of theft, damage, etc. mentioned above, and which are not at all negligible under a system of bureaucratic management, a mistaken distribution which hinders the *effective utilisation* of new machinery, etc., in the production process will prevent the realisation of accumulation. Just because capital goods have ceased to be commodities, the "realisation" of the surplus product is their putting to work, their effective consumption.

† Nevertheless, account must be taken of deposits in Savings banks which bring in interest, that is, which permit their owner to appropriate part of the social surplus. As, moreover, the right of inheritance is unlimited, a person who inherited 4 or 500,000 old roubles could live on his interest, receiving more than the average wage.

duction. It is the main instrument for the redistribution of the national income'."[64]

The more or less arbitrary fixing of prices in certain sectors of industry is the essential means used by the Soviet government to determine the rate of investment in these sectors, to encourage or discourage the consumption of the products of these sectors.* What in capitalist economy results *a posteriori* from the interaction of thousands of individual decisions to consume or to invest, results in the U.S.S.R., by and large, from *a priori* decisions by the central planning authorities.[65]

Finally, profits lose completely, at least in the state sector, the role of basic driving force of economic life which they play in capitalist economy. They remain to be sure, a means of interesting the bureaucrats in the realisation of the plan and reducing costs of production. The additional profit obtained by reducing costs of production in comparison with those assumed in the plan is in part put at the disposal of plant managers as the "manager's fund" (or "plant fund"). But this is only a mere question of technique. The same operation could be carried out by way of the distribution of bonuses, or by reductions in selling price consequent on reductions in cost of production. Profit also plays an increasing role as a financial source of accumulation.† But this role is likewise purely a technical one. Without any structural change the Soviet system would be able to abolish the very notion of profit tomorrow, and finance accumulation by a sliding-scale system of turnover taxes on all sectors of industry.

* See, in Chapter 18, section on "the new economic debate in the U.S.S.R." the discussion of the various theories and hypotheses put forward by the Soviet economists in favour of a radical revision of the system of calculating prices.

† Here is the relevant section of the Soviet state budget dealing with the turnover tax and the levy on the profits of state enterprises (in billion roubles):

	Total revenue	*Turnover tax*	*Levy on profits*
1928	8	3·1	0·6
1932	30	17·5	?
1937	109·3	75·9	9·3
1940	180·2	105·9	21·7
1946	325·4	190·9	16·6
1950	422·1	236·1	40·0
1954	571·8	234·3	92·6
1958	672·3	304·5	135·4
1962	843·3	329	239

Theoretically, the increasing importance of the heading "levy on profits" in the financing of the Soviet budget could be regarded as a sign of economic health, taxation of consumption being replaced progressively by the product of the profitability of enterprises as the means of ensuring socialist accumulation. In reality, given the arbitrary nature of prices, the two sources of accumulation do not differ at all; it is merely a matter of the substitution of one financial *technique* for another.

The contradiction between the non-capitalist mode of production and the bourgeois norms of distribution is the basic contradiction of every society transitional between capitalism and socialism.* The Soviet economists are beginning, moreover, to admit this more or less explicitly. Kronrod writes of the "contradictions between the relations of equality which apply in respect of ownership of the means of production and the relations of *de facto* inequality which apply in respect of the results of the use of these means of production in the actual production process".[68] But in Soviet society this inevitable contradiction is aggravated by the existence of bureaucratic privileges, which are justified by the thesis about distribution "in accordance with the quantity and quality of labour contributed by each individual".†

The commodity contains in germ all the contradictions of the capitalist mode of production. Since it is produced for an anonymous market it may turn out to be unsaleable. True, in the era of transition, consumer goods are commodities precisely because of their relative scarcity, their under-production. All-round overproduction is thus out of the question; the state can progressively reduce their prices in proportion as production increases.

But as a result of a faulty distribution, a price momentarily too high, or inferior quality, some commodities may remain unsaleable. Their equivalent in money is not realised, and thenceforth they will have been produced at a dead loss, from the standpoint of society and the state.

Allusions to these "unsaleable stocks" are increasing in the Soviet press: 60 million roubles-worth of unsold stocks in 1952 in the workers' provision stores in Stalino (Ukraine); stocks exceeding by 60 per cent the figure allowed by the plan in the district of Osh, in Kirghizia; 500 million roubles' worth of unforeseen stock in Kazakhstan in 1953; need to cut prices by 25 per cent for a series of consumer goods which would otherwise remain unsold, in 1956; the sudden introduction of hire purchase in 1958; a million unsaleable sewing machines produced by the Podolsk factory down to the end of 1964, etc.[69] At the end of 1961 55 per cent of the stocks in the retail shops of the U.S.S.R., to a total value of 11 billion new roubles, were estimated to be excessive, since they consisted of goods the demand for which had basically been

* It is interesting to note that V. Nemtsov writes, in *Izvestia*, about the "bourgeois right of inheritance which has been retained in the U.S.S.R.". Many Soviet writers protest strongly against the use of the expression "bourgeois norms of distribution" in relation to the system of distribution in the U.S.S.R. But Marx explicitly describes as a survival of "bourgeois right" distribution in proportion to the amount of labour contributed to society. How would he have described distribution which conceals an even greater degree of inequality behind the formula of distribution "in accordance with the quantity and *quality* of labour contributed".?[67]

† See Chapter 18, section on "an apologetic distortion of Marxism".

satisfied. For these goods, the stocks already represented 50 per cent (!) of the value annually sold.[70]

The fact is admitted by Soviet theoreticians. Thus, A. G. Kulikov alleges that "practice has convinced us that . . . when goods remain in store in the distribution network and cannot be sold, the labour congealed in these goods has not been recognised socially".[71]

The fundamental contradictions of Soviet economy

The contradiction between the non-capitalist mode of production and the bourgeois norms of distribution is the fundamental contradiction of every society transitional between capitalism and socialism. Theoretically this contradiction should grow less in proportion as the productive forces develop, as the level of well-being and culture of the population increases, as situations of shortage—freely accepted through choices democratically made by the majority of the working masses—are more and more replaced by free distribution of goods and services in accordance with the principle of the satisfaction of needs.

But this close correspondence between the development of the productive forces and the gradual withering away of the contradiction between mode of production and norms of distribution during the period of transition from capitalism to socialism presupposes above all* a high degree of consensus between the masses and the government, a high level of socialist democracy, active participation by the workers in the management of enterprises and of the economy as a whole, working out of the plan by democratic discussion and debate, and close supervision by the working people of this working-out of the plan, of its application, and of its periodical correction. In short, it requires a state which is a workers' state in the deepest and most democratic meaning of the term.

Now, Lenin remarked already in 1920 that the U.S.S.R. was not simply a workers' state but a workers' state with bureaucratic distortions.[72] For historical reasons related both to the low level of development of the productive forces, the numerical and cultural weakness of the proletariat, the loss of much of the vanguard during the civil war, the international isolation of the revolution, and the extremely heavy burden of privation that the Soviet working class was called upon to bear, the latter began to show less and less interest in direct management of the state and the economy.[73] This management was increasingly carried out by a bureaucratic apparatus, at first through a sort of delegation of powers, later more and more by usurpation. The Bolshevik Party did not understand in good time the seriousness of this

* It also presupposes a rapid extension of the area of the world freed from capitalism, a high level of socialist consciousness and education, a close correspondence between the development of the economic infrastructure and that of all spheres of the superstructure, etc.

problem, despite the many warnings sounded by Lenin and by the Left Opposition.[74] Instead of checking this process of bureaucratisation, and changing direction, it made itself first the accomplice and later even the driving force of the process. The bureaucratic distortion became a degeneration.

The specific contradictions of Soviet economy are thus not confined to the fundamental contradiction of *every* transitional society; they *combine* this fundamental contradiction with the contradictions which arise more especially from bureaucratic control of the state and the economy. The latter can be grouped in three categories: the contradictions resulting from disproportion in development between industry and agriculture, and more generally, between heavy industry and the whole sector (agricultural and industrial) producing consumer goods; the contradictions resulting from the use of material incentives in an economy managed by a bureaucracy, that is, in an economy in which the material interest of the bureaucrats becomes the essential driving force for the fulfilment and overfulfilment of the plan; and the contradictions resulting from the techniques of bureaucratic management itself.

All these contradictions are combined with the *antagonistic coexistence of the plan and the market*, which is inevitable during any period of transition from capitalism and socialism, but with the conflict between them exacerbated by the harm done by bureaucratic control of the economy and the state, which intensifies both the automatic working of the commodity categories and the attempts to stifle them by purely administrative means.

The effects of these contradictions are numerous, but their economic and social weight differs according to the stage that the Soviet economy is passing through.

In the period of Stalin's dictatorship the tasks of construction were essentially *extensive*. It was a matter of creating the infrastructure of a great modern industrial power, essentially by copying foreign enterprises and techniques. Labour was plentiful, and its power of resistance was reduced to the minimum by terror and the atomisation of the masses. Social tension was, indeed, tremendous, but the régime answered it by means of successive waves of large-scale repression. The results were bought at the price of enormous wastage and sacrifices that could easily have been avoided;* but they were no less impressive. Quality was systematically sacrificed to quantity: but the latter

* The fantastically over-ambitious nature of the first Five-Year Plan, and of some sector plans at more recent dates, led to waste on such a scale that a similar rate of growth could well have been achieved at far less economic and human cost, if they had hastened more slowly. Vast miscalculations occurred, resources were wasted on a prodigious scale on enormous "prestige" projects (canals, "transformations of nature", etc.) using much forced labour.[75]

seemed to increase in accordance with an irresistible logic of geometrical progression.

It is true that, already in the Stalin era, agriculture, after the frightful bloodletting of 1930–1934, became stuck more and more hopelessly in the mud of stagnation. It is true that already at that time a marked slowness began to appear in the development of new industries.* It is true too that the rate of growth began to fall off. But it was possible to believe during an entire period that, while the social contradictions arising from this context were becoming more and more explosive, the economic contradictions would not prevent a regular and rapid, if not harmonious, growth of the productive forces.

From the beginning of the 1950's it became necessary to alter one's views. Stalin's successors themselves had to face the fact that urgent reforms were needed to get the Soviet economy going again. These reforms affected first of all agriculture and the standard of living of the working people, and also the abolition of irrational forced labour and of an unbearable labour code. They quickly spread to the organisation of industry and the methods of management and planning themselves.

From then on a fundamental problem of reconversion confronted the Soviet economy: growth, from having been *extensive*, had to become *intensive*. The increasing of production by mere increase in the labour-force lost all meaning from the moment when, on the one hand, reserves of labour-power were exhausted, and, on the other, the equipment newly introduced became more and more costly and more and more productive. The length of the period of immobilisation; the time taken by construction work; techniques for depreciation of installation costs—these became problems far more important than those of "labour discipline". International competition with capitalist economy also necessitated an increasing shift of emphasis to the quality of products, the productivity of labour and the rationalisation of investment, the volume of which moreover necessitated the maintenance of a high rate of growth, even on the purely quantitative plane.†

But the reforms of the Khrushchev and post-Khrushchev periods are essentially reforms *within the framework* of bureaucratic management of the economy and the state; the latter has not been challenged.

* See on this subject writings by Arzumanyan and numerous Eastern European writers.[76]

† "At present enormous material values exist in the economy which drag like useless burdens and which are used neither for production nor for meeting the individual needs of the population. We must mention in this connexion first and foremost the excessive scale of construction projects which remain uncompleted owing to the protraction of detailed parts of the work and the wastage of capital investments. On the building sites and in the plants there is a great deal of equipment which is not set up for operation and which remains unused for long periods."[77]

Being bureaucratic reforms of bureaucracy, their positive results are limited, especially in time. After a few years, their dynamism is exhausted; new dangerous signs of a slowing down in the pace begin to appear. The trouble is that, in general, they tend merely to replace one type of contradiction by another. We must now show the truth of this in a number of specific fields.

Disproportion between industry and agriculture

In no sphere has bureaucratic management shown itself so disastrous over a long period as in that of agriculture. While all the misdeeds of the bureaucracy were unable to prevent a prodigious development of the productive forces in industry, thanks to the advantages of planning, they were combined in agriculture with the disadvantages of a hybrid system of property. The result was a catastrophic fall in production over a long period.

The origin of the disproportion between the development of industry and the decline or stagnation of agriculture lies in the fact that industrialisation was started late, whereas the complete collectivisation of agriculture was undertaken prematurely, before the technical and social foundation existed for such a revolution in the agricultural mode of production. It was precisely the delay in industrialisation that postponed the creation of an adequate technical basis for agrarian collectivisation, and that at the same time favoured the polarisation of social forces in the countryside. The crystallisation of the power of the kulaks became an imminent threat to the survival of the Soviet state and pushed the government on to the road of complete and compulsory collectivisation. It was the same delay in industrialisation that was responsible for its precipitate and spasmodic character.

In the absence of adequate mechanisation and of extensive investment in fertilisers* and infrastructural works (roads, silos, store-houses, garages, stables, dwelling-houses, etc.), complete collectivisation of agricultural holdings produced harmful effects from both the economic and the social standpoint. Output fell, especially output of fodder, meat, milk, etc. The discontented and desperate peasants slaughtered their animals. It was necessary to create a bulky apparatus of collective-farm officialdom which reduced the margin of accumulation of the agricultural enterprises. Added to these effects was the need to extract from agricultural production an important part of the accumulation fund required in order to make possible accelerated industrialisation.

* In 1950 only 6 kg. of fertiliser was used in the U.S.S.R. per hectare of cultivable land, as compared with 23 kg. in Italy, 48 kg. in France, 124 kg. in Britain and Eastern Germany, and 147 kg. in West Germany. In 1955 the figure was 9 kg. in the U.S.S.R., but it had doubled in Italy and increased to 210 in West Germany![78]

The fall in agricultural production was all the more disastrous because, owing to industrialisation, a smaller number of agricultural producers henceforth had to feed an urban population which was greatly increasing. Under Tsarism, 25 million peasant households fed 28 million townspeople; today 17 million collective farmers and state-farm workers have to feed over 100 million townspeople, to whom must be added several million non-producers in the countryside itself.

All these factors together brought about an acute and permanent crisis in Soviet agriculture, the effects of which, aggravated by wartime destruction, are far from having been overcome today. This is clearly shown by the following figures of agricultural production and number of farm animals: [79]

	1913-16	*1928*	*1932*	*1937*	*1946*	*1950*	*1953*	*1955*	*1959*	*1965*
Grain (barn harvest) (million tons)	80	73·4	69·9	96	56·7	84·0	85·0	108	124	120·5
Grain (in the fields)	—	—	—	120·3	66·7	124·5	121·3	—	—	(†)
Sugar beet (million tons)	10·8	10·1	6·6	21·8	21·3	20·7	22·7	30·5	54·1 (in 1958)	77·1 (in 1963)
Unpicked cotton (million tons)	—	0·8	1·27	2·48	—	3·6	3·65	3·91	4·7	5·7
Horned cattle (million head)	58·4	66·8 / 60·1*	38·3	47·0	47·6	58·1	63·0	58·8	70·8	93·4
Of which, cows	28·8	33·2 / 29·3*	22·3	20·9	22·9	24·6	24·3	27·2	33·3	40·1
Pigs (mill. units)	23	27·7 / 22·0*	10·9	20	10·6	22·2	28·5	34	54	59·5
Sheep (mill. units)	96·3	114·6 / 107·0*	47·6	53·8	70	93·6	109·9	103·3	129·6	135·3

In order to interpret these figures correctly it is necessary to take into account the increase in the population, which rose from 159 millions in 1913 and 147 millions in 1926 to 170 millions at the beginning of 1939 and over 200 millions in 1956. It follows that between 1930 and 1955, per head of population, agricultural production (except for technical crops) and the number of farm animals (for pigs this applies only until

* The first figure is for the U.S.S.R. within its present frontiers, the second for the U.S.S.R. within its frontiers previous to 17th September, 1939.

† For the period 1937–1953 we give two figures for the grain harvest. The figure for grain in the fields represents the harvest figure officially given at the time. Naum Jasny, a Russian émigré economist, was the first to draw attention to the fact that this official figure did not represent the actual amount harvested, as previous figures had done, but was an estimate of the *grain standing in the fields* (the "biological yield" and not the "barn yield").[80] Official confirmation was first given to this view in 1944 in an obscure publication of the Soviet government. It was later repeated by Malenkov and Khrushchev.[81] The difference between the "biological yield" and the actual amount harvested varies between 10 and 30 per cent on the average

1953) were *lower than in 1916*, and that for horned cattle and for cows neither the level of 1913 nor that of 1928 has been recovered to this day. The amount of grain available per head of population increased from 503 kg. in 1913 to 528 kg. in 1965—an "increase" of 5 per cent in half a century!

Furthermore, though the area sown to grain crops increased by nearly 40 per cent between 1928 and 1955, production increased by less than 50 per cent which means that the enormous mechanisation carried out had been able to increase output by hardly 10 per cent. The average productivity of agricultural labour thus remains extremely low. In order to produce a quintal of wheat, the collective farmers expended in 1956–1957 *seven times as many hours of labour as the American farmers*, six times as much labour to produce a quintal of sugar beet, and sixteen times as much labour to produce a quintal of pork.[82]

Nevertheless, in proportion as the mechanisation of agriculture is progressing, positive results are appearing, especially in the production of technical crops: cotton production doubled between 1932 and 1937, to increase again by 50 per cent between 1937 and 1950, and by another 50 per cent between 1950 and 1965. The number of tractors available to agriculture rose from 26,700 in 1928 to 148,500 in 1932, 454,000 in 1937, 600,000 in 1950, 844,000 in 1955 and 1·4 million at the end of 1963. At this rate complete mechanisation of agriculture is within the realm of the possible. The amalgamation of collective farms, which reduced the number of co-operative agricultural enterprises from 240,000, before the war, to 95,000 in 1952, expresses in its own way the considerable enlargement of the technical foundation acquired by Soviet agriculture. Since then this process of concentration has continued; only 80,000 collective farms were spoken of in 1958, and so few as 38,800 at the end of 1963.

Like the results of industrialisation, the results of mechanisation must be considered not only in absolute figures but also in relation to the number of inhabitants, and to the cultivated area. From this standpoint, the U.S.S.R. is still low on the list. In 1963 it had one tractor per 130 hectare of cultivated land, as compared with one per 40 in the U.S.A. and one per 22·5 in Britain and West Germany. Per head of population the ratio is as bad: 6 tractors per 1,000 people in the U.S.S.R., as compared with 20 in the U.S.A., 25 in West Germany and 27 in Britain.

These tractors are, moreover, not used very intensively. According to *Pravda* of 19th February, 1950, tractors in the Kursk area were idle 30 per cent of the time, on the average, in the previous few years. They remained ten months out of twelve out in the open air, getting rusty and soon becoming unusable. For thirty years it had occurred to no-one to build simple shelters to protect these tractors from inclement weather.

The losses caused by bad use of tractors are enormous. Khrushchev himself estimated them at a quarter of annual production, lost merely through delay in getting the harvest in.[83]*

Finally, it must be remembered that the presence of tractors does not exhaust the problem of agricultural mechanisation and rationalisation. In 1950 only 18,500 out of the 121,000 collective farms had electricity. In 1954 this number had risen to 21,000 out of 87,100. In 1953, of 94,000 collective farm chairmen only 16,000 had middle or higher qualifications as agronomists.[85] In 1962 60 per cent of these chairmen had these qualifications; but the number of collective farms had in the meantime been considerably reduced.

The mechanisation of agriculture for a long time determined the specific relationship between the socialised sector and the co-operative sector of the economy. Tractors and agricultural machines were not sold to the collective farms after 1928. They remained state property and became the state's chief instrument for planning and regulating agriculture.† The machine and tractor stations lent these means of production to the collective farms in exchange for payment in kind, which increased in proportion to the increase in the yield from their land. *Thus, part of the differential rent, which continues to exist in the U.S.S.R. as in every transitional economy, was taken by the state and subtracted from the accumulation fund of the collective farms,*‡ to be added to the accumulation fund of the state. Here are the differentiated rates of payment to the M.T.S. laid down in 1940, in percentages of the wheat and sunflower crops:

	Crop per hectare, in quintals		
	Up to 5	*From 5 to 10*	*From 10 to 16*
	%	%	%
Steppe zone	20·6	32·7	34·4
Forest zone	11·9	25·4	28·5
Far East	11·1	22·6	26·6[88]

* It should be added that, according to the UNO survey of the economic situation in Europe in 1953,[84] the entire Soviet park of agricultural machines had in that year a total of 14·5 million horse-power, the equivalent in traction-power of less than 20 million horses, whereas since 1913, the U.S.S.R. had lost 23 million horses!

† Volin points out that during the war and the first post-war years appropriation of tractors by the collective farms took place, which led to the decree of 6th March, 1948, forbidding the sale of tractors or spare parts for tractors to the collective farms and obliging the latter to sell their tractors back to the M.T.S.[86]

‡ The indivisible fund of the collective farm consists of its buildings, its electric power stations and small working machines, etc. The value of this fund is said to have doubled between 1940 and 1953. Between the first and the fourth Five-Year Plan, inclusive, 60 billion roubles were, apparently, devoted by the collective farms to increasing this fund.[87] According to the *Statistical Abstract* of 1955, the fund amounted in that year to 87·6 billion roubles, as

In addition to this payment in kind for the use of the machinery lent by the M.T.S., the collective farms had to supply compulsory deliveries at fixed prices. These were at first calculated in proportion to the area sown to each agricultural product. But this system was found to discourage the growing of specialised crops. In 1940 it was replaced by a calculation of compulsory deliveries on a *pro rata* basis related to the total cultivable area of each collective farm. The latter was thus induced to cultivate the maximum area of its land: it was also given an interest in developing specialised crops, for which the quantities to be delivered were less than those of ordinary crops.[89]

Actually, the prices paid by the state for these compulsory deliveries were so low that they came very close to being a simple tax in kind.* Even after these prices had been doubled, trebled or quintupled in 1953–1954 they often remained below the cost of production of the agricultural produce. It was only in 1956 that these prices began to cover, as a rule, the costs of production.

A considerable share of collective farm production, on the average probably a third, thus constituted surplus product appropriated in one way or another by the state. If account is taken of the substantial share of the harvest needed to replace the capital used up in the course of production (stocks of seed and of fodder), hardly a quarter of production would be left for distribution among the collective farmers:[91]

DIVISION OF THE HARVEST OF WHEAT AND LEGUMINOUS PLANTS

	1938 %	*1939-40* %
Compulsory deliveries	15·0	14·3
Payment to M.T.S.	16·0	19·2
Sales to state organs (and trading co-operatives) on the free market	5·1	4·0
Seed and fodder stocks	32·2	32·1
Distributed as income to the peasants	26·9	22·9
Funds for reserves, repayment, credit, etc.	4·8	7·5

The share of the harvest sold on the free market, to state organisations and trading co-operatives, provided the collective farms with the funds

compared with 50 billion in 1950. In 1960 it is reported to have reached 281 billion roubles. According to the collective farms charter, 10 to 15 per cent of their annual money income has to be devoted to the upkeep and extension of this fund, that is, to depreciation of fixed capital and accumulation.

* Khrushchev even revealed that potatoes supplied to the state through compulsory deliveries were paid for in 1952 at the rate of 2·5 to 3 kopecks (0·3 U.S. cents) the kilo, which was less than the cost of transporting them to the procurement centre, a charge which in those days had to be met by the collective farms. Potatoes were thus being produced by the collective farms at a "negative price".[90]

needed for the purchase of fertilisers, building materials, etc., and for meeting the other collective needs of the agricultural co-operative.

The quantity of agricultural produce distributed as income to the members of the collective farms varied a great deal from region to region, and depending on the fertility and extent of the collective farm's land, the output of labour, etc. After 1930 the total amount of produce available for this distribution was divided, within each collective farm, in accordance with a reckoning in *work-days* (8 hours of simple labour counting as one day). In 1938 the equivalent of a work-day was:

> less than 3 kg. of wheat for 80·3 per cent of all collective farms; between 3 and 7 kg. of wheat for 16·3 per cent of collective farms; between 7 and 10 kg. of wheat for 1·6 per cent of collective farms; and over 10 kg. of wheat for 1·8 per cent of collective farms, or about 4,300 collective farms.[92] To this was added a small sum of money, which rarely exceeded a few roubles.*

There was thus at that moment a small group of fewer than 10,000 rich collective farms and a group of 40,000 fairly well-off ones, alongside 190,000 poor farms.

After the war the situation remained practically the same, until 1951–1952. The journal *Kommunist* gave as the average payment for a workday in a "good" collective farm in 1951 3 kg. of wheat and 3·15 roubles, and in 1952 2·8 kg. of wheat and 4·8 roubles.[94] Even in 1957 the average payment per workday did not exceed 4 roubles.[95]. Yet in the same period the collective farm workday was already "worth" more than 10 roubles in the cotton plantations of Uzbekistan and Tadzhikistan. K. Orlovsky reported that it was worth even 30 roubles in "his" model collective farm in Mogilev district.[96] It must be concluded that the rate of payment remains less than 3 roubles and even less than 2, in a number of "backward collective farms". This conclusion seems to be confirmed by a Soviet survey of collective farms in the Ryazan area, where the output of "poor" collective farms amounts to only 30 per cent of those of "rich" ones.[97] The official yearly statistical abstract of the U.S.S.R. for 1960 shows that per 100 hectares, 2·5 per cent of the collective farms had a money income of less than 1,000 new roubles, 6·2 per cent had between 1,000 and 2,000, 10·2 per cent between 2 and 3,000, 23·9 per cent between 3 and 5,000, 34·6 per cent between 5 and 10,000, 17·9 per cent between 10 and

* Official Soviet sources give, for 1952, a payment of 1·4 roubles per collective farm workday, and for 1956 3·8 roubles. The total amount of money payments to collective farmers for their workdays was 12·4 billion roubles in 1952, whereas peasants' sales on the free market in the towns brought them between 35 and 40 billion roubles in the same year![93]

20,000, and 4·7 per cent more than 20,000.[98] (The new rouble, introduced on 1st January, 1961, is worth 10 old roubles. Our figures are given in old roubles except where new roubles are mentioned.)

It is clear that the meagre income distributed by the collective farms to their members is not adequate to meet even their simplest needs.* The small private holding which each peasant has, and above all his privately-owned livestock, had to make up for the deficit caused by the huge rate of surplus product in the collective farms. Hubbard and Jasny estimated at over 50 per cent of the total income of the Soviet peasant the share obtained before 1940 from the private sector of his work, however tiny this might be.[99] Finegood put it lower, at 43 per cent.[100] Official sources show, at least for the post-war period, percentages which are much smaller, for example 20 per cent for a very prosperous collective farm in 1950.[101] But these same sources confirm that a large share of the potatoes, other vegetables† and dairy produce, as also of the meat consumed by the peasant household itself, come from the private holding and are not included in the calculation of income. More recently, René Dumont has quoted a variety of sources which estimate the contribution of the private holding (the *dvor*) to the collective farmers' total income at $\pm$ 30 per cent[103] in the beginning of the sixties.

In 1957 the production of meat on the smallholdings amounted to 5·9 million tons, as compared with 5·7 million tons in the state farms and collective farms. But of this 5·9 million tons, only 1·7 million was sold. Similarly with milk: the private holdings produced in 1957 29·4 million tons (as compared with 25·3 million tons in the state farms and collective farms), of which only 4·5 million tons were sold.[104]

This dualism in the agricultural mode of production, and the very great importance which the income in kind from his own private holding still has for the peasant, gives rise to serious problems in connexion with the allocation of his labour-time between the collective farm enterprise and the private holding. In fact, there is no shortage of labour, if we consider the very small number of workdays contributed every year by each peasant. But the latter prefers to spend more time working on his own holding to working in the co-operative fields, and these run the risk of being neglected.

* Official figures enable us to show this easily for the last years of the Stalin era. The 20 million peasant households received in 1950 only 34·2 billions in money for their work on the collective farms, that is, 1,710 roubles a year, or less than 150 roubles a month. Even if we estimate the element of payment in kind at more than 50 per cent of total payment received, that gives an average income per household of 300 roubles, which is less than half of the average income of an urban household in that year.

† According to the journal *Voprosy ekonomiki*,[102] the private holdings supplied in 1958 49·8 per cent of the potatoes and 31·3 per cent of the other vegetables produced in the U.S.S.R.

According to the article already quoted from the journal *Sotsialisticheskoye Zemledelye*, in 1938 22·6 per cent of the peasants contributed less than 50 workdays, and 38·3 per cent contributed between 50 and 200 workdays. Nearly 40 per cent of the collective farmers spent less than 100 days a year working in the collective farm fields! This situation became so critical that in 1939 a special decree made obligatory a minimum of workdays to be contributed to the collective farms every year, varying from 60 to 100 days according to region.[105] In 1942 this minimum was increased to 100–150 days, but the measure appears not to have been strictly applied, since the decisions on the "new course" in agriculture taken in September 1954 introduced a prohibitively heavy tax on collective farmers who gave less than 100 days a year to the collective farm. A Soviet source puts the average number of workdays actually contributed in 1958 at 200 for men and 150 for women; and the Communist writer J. Triomphe[106] estimated in 1963 that 40 per cent of all agricultural work done was devoted to the private holdings.

Thus, the contradictions inherent in the hybrid mode of production of agriculture—a combination of private production of use-values, petty commodity production, and co-operative production controlled by the state through measures of fiscal coercion—were exacerbated in the general setting of the contradictions of the Soviet economy. The small quantity of industrial consumer goods that the peasants obtained in exchange for their produce limited their productive effort to the minimum. And the comparative scarcity of agricultural products which ensued created a state of general dissatisfaction among all the consumers. By reacting, through a comparative scarcity of agricultural raw materials, upon industry itself, this also fostered tendencies towards the disorganisation and frustration of planning.

During the last few years before Stalin's death, Soviet agriculture was in a blind alley: World Power Number Two was unable to feed its own population. Between 1950 and 1953 the production of grain and the numbers of horned cattle stagnated utterly, at a level below that of 1928! The number of workdays contributed by the peasants in the collective farms remained less than in 1940.[107] The amount of meat available per head of population was less than in 1913.[108]

Immediately following Stalin's death, first Malenkov and then Khrushchev took steps to change the direction of development. A series of four reforms of Soviet agriculture were carried through, one after another, the effects of which, important at first, were rapidly exhausted after a few years.

The first reform consisted essentially of increases in the prices paid for compulsory deliveries; the money income of the collective farms thus rose from 43 billion roubles in 1952 to 95 billion in 1956 and 135 billion in 1958. It was, however, far from being the case that all these new prices were, even at the time, sufficient to make production profitable.*

Though this increase in prices made possible a considerable increase in the production of meat, butter and milk for the market (it rose from 5·8 million tons of meat and 13·7 million tons of milk in 1953 to 6·9 million and 23·5 million tons, respectively in 1957), grain production did not notably improve. Khruschev then decided to launch his famous "virgin lands" campaign, which was intended to make grain supply to the towns of the U.S.S.R. largely independent of the collective farms, by rapidly developing state farms in Siberia† But this campaign did not bring the results expected, above all because drought and erosion quickly reduced yields.

The second reform carried further the appeal to the "material interest" of the collective farmers. Compulsory deliveries at low prices were abolished. The M.T.S. were dissolved and the tractors and agricultural machinery sold to the collective farms in 1958. The latter henceforth delivered their crops to the state at profitable prices, which enabled them rapidly to accumulate substantial assets in roubles. The supply of durable consumer goods to the villages continuing to be inadequate, the collective farms were allowed to undertake the building of houses on private initiative, and to set up—through "associations of collective farms"—industrial enterprises for the making of building materials, small implements, and food-industry products (pickles, sausages, cakes, etc.).

Though this second reform gave a fresh impetus to cultivation in 1958–1961, it did not make possible a lasting improvement in grain production after the "virgin lands" had exhausted their potentialities of high yields. Pressure for selling privately-owned livestock to the collective farms, which began to be felt in 1959, had an adverse effect on stockbreeding. Thus, about 1962, there was a dangerous state of stagnation, and even of decline, in agricultural production per head of population; between 1959 and 1962 the amount of meat available rose from 8·9 to 9·2 million tons, an increase of 3 per cent, while population rose by 10 millions (5 per cent). Many poor collective farms fell heavily into debt through buying tractors and agricultural machinery. The rate of utilisation of this machinery even began to fall off. The flight from the countryside was intensified.

It was then that Khrushchev tried a third reform, based on two

* In 1960 the price paid by the state for livestock products was still below the collective farmers' costs of production. For 100 kg of produce, the difference was 14 per cent in the case of milk, 35 per cent for beef on the hoof, 33 per cent for pork, 41 per cent for poultry and 35 per cent for eggs.[109]

† In 1953 the sown area consisted of 132 million hectares on the collective farms and 18·2 million on the state farms; in 1961 these figures stood, respectively, at 110·6 million and 87·3 million.[110]

principles: a large increase in production of chemical fertilisers, and general abolition of grass-meadows in favour of the cultivation of fodder plants. At the same time, encroachments on private holdings and privately-owned livestock increased.

A few years later the evidence showed that this reform had exhausted its effects no less quickly than the previous ones. Its failure was one of the causes of Khrushchev's fall. His successors launched in October 1964 a fourth reform, based on guaranteeing the inviolability of private holdings and privately-owned livestock, a rapid transition to the payment of a regular monthly wage to the collective farmer,* and an all-round and substantial increase in investments in agriculture, both in fertilisers and in machinery, production of which was considerably increased, and also in material means for irrigating and draining vast areas.

Agriculture, after having financed the country's industrialisation for four decades, is now beginning to be subsidised in its turn.

Planned economy and the material incentive of personal interest

The normal vehicle of socialist planning and accumulation is consciousness on the part of the industrial producers that they are defending their own interests, together with their creative initiative. But facts must confirm theory; every increase in productive effort must be immediately reflected in an increase in consumption by the masses. When this driving force is largely absent, because the excessive rate of accumulation imposes excessive sacrifices on the producers, the bureaucracy becomes the regulator and chief director of accumulation. It thereby acquires substantial consumer privileges (in money, housing, luxuries and other scarce consumer goods, etc.).†

Though extremely important in a period when semi-famine and extreme shortage of all articles of prime necessity prevailed, the relative attraction of these privileges declines with the improvements in average living conditions and with the general development of the enterprises and the responsibilities to which they commit the bureaucrats. The fear of purges, the strict correlation between social position and fulfilment of the plan, the increase in income in proportion to the output to the enterprise function as incentives giving the bureaucrats an

* At the beginning of 1966 the average monthly income of a collective farmer was still only 29 new roubles, as compared with the average monthly wage of 54 new roubles received by a worker on a state farm.

† According to official Soviet sources, the number of heads of enterprises and other managerial personnel in the economy (including agriculture) increased from 365,000 in 1926 to 1,751,000 in 1937 and 2,240,000 in 1956; the technical directing staff of industry (engineers and chief engineers) from 225,000 in 1926 to 1,060,000 in 1937 and 2,570,000 in 1956; the technical cadres in agriculture from 45,000 in 1926 to 176,000 in 1937 and 376,000 in 1956; statistical and accountancy staffs from 650,000 in 1926 to 2,161,000 in 1956.[111]

interest in increasing production. But the more their income increases, the less this income can secure them new satisfactions in the sphere of consumption, and the more the bureaucrats become concerned rather with preserving and securing what they have than with acquiring fresh benefits. The personal interest of the bureaucrats, regarded as the essential driving force for fulfilling the plans, comes more and more into conflict with what is needed for a harmonious and rapid advance of the economy.

In order to counteract the tendencies towards irresponsibility shown by individual bureaucrats—theft or waste of state property, which they have at their absolute disposal insofar as they are the unchallenged masters in the enterprises, free from any check by the workers—the Soviet state had to introduce in 1935 the principle of the *individual profitability of enterprises (khozraschet).* By this the incomes of the bureaucrats depend on the fulfilment of the financial plan of the enterprise, which often clashes with the requirements for fulfilling the material plan, with the quality of products, and even with planning itself.

Baykov shows[112] that, in order to fulfil the financial plan, from 1939 onward many branches of industry ceased, by their own decision, to produce certain kinds of products, and concentrated on producing other goods, in spite of the fact that this was in flagrant contradiction with the directives of the plan. In his speech to the 19th Congress of the C.P.S.U. Malenkov pointed out that this fault was a permanent phenomenon in state industry:

"The Kharkov electrical equipment works has allocated for several years now 30 to 40 per cent (!) of its capacity to producing what are called indeterminate articles, that is, articles which are not at all intended by the plan to be produced by a plant like this . . . It has engaged in making window-nails, door handles and other articles of ironmongery."[113]

The journal *Kommunist*[114] stated that in 1952 the cotton textile industry supplied 197 million metres of ordinary fabric and underclothes in excess of what was laid down in the plan, and 183 million metres of satin and higher-quality fabrics (artificial silk, etc.) less than had been planned. *Pravda* of 5th October, 1954 reported that numerous textile and footwear factories were refusing to make children's clothes in sufficient quantity because this line was less "profitable".

Urged on by the state to continually cut down the financial cost of their products, the plant managers, interested in making this effort because of the substantial bonuses associated with such cuts, fulfil their aims by systematically reducing the quality of their products. The Soviet writer S. Turetsky[115] estimates that the cost of rejects and defective articles amounted in heavy industry to "several billion roubles a year", out of a total value produced of about 100 billion (in 1940).

The losses resulting from the despatch of defective products amounted to 5·3 per cent of total costs of production in mechanical engineering and 6·5 per cent in the metal industry, during the first half of 1940. Fifteen years later the annual loss from this cause was estimated at 6 billion roubles. At the 20th Congress of the C.P.S.U. Frol Kozlov estimated that the U.S.S.R. was losing 25 billion roubles a year in unused scrap metal.[116]

Knowing that the fulfilment of the plan depends on "his" enterprise being kept regularly supplied with raw materials, auxiliary products, electrical power, etc., the bureaucrat, faced with the relative scarcity of these goods, tries to safeguard himself by constantly demanding amounts greater than he really needs, thereby in his turn adding to their scarcity.* This phenomenon has been described by David Gullick and Joseph S. Berliner, who both base themselves on interviews with a large number of former factory managers who have defected to the West.[118] The Soviet journal *Planovoye Khozyaistvo* has shown that a number of enterprises put in demands for equipment, automatic machinery, materials, metal, wood, etc., in quantities 20 to 30 per cent greater than their needs and their actual consumption. Another Soviet journal, *Za Ekonomiyu Materialov*, has noted the same tendency to build up considerable reserves in the ministries themselves. In 1955 Bulganin put these reserves of equipment and materials at 13·5 billion roubles. According to Saburov, "the ministries and administrations present excessively inflated demands for investments out of state funds. Thus, in 1956, they asked for an additional allotment of 60 billion *(sic)* roubles, over a third of the total investment programme of 1956."[119]

Indeed, this tendency on the part of the bureaucrats to give themselves a margin of security by constituting "reserves" goes so far that they try to conceal and systematically under-estimate the production capacity of their enterprises. The Soviet writers Alfeyev and A. Korotkov published, in the journal *Planovoye Khozyaistvo*, an article entitled: "For full reporting and utilisation of productive capacities", the title of which is itself already eloquent. In this article the following examples are given: "In the Ministry of the Coal Industry, figures of productive capacity are used in a number of mines which are well below the level of production actually achieved . . . In the Ministry of the Wood and Paper Industry the figures of productive capacity which were used were far below actual production."[120]

* "Whenever factories are held to a rigid programme, they will hoard everything they can—labour, materials, and even finished goods—so as to be able to guarantee delivery to schedule . . . The Chinese delegates made no bones about their own drive against hoarding of materials. They agreed that there was a constant tug-of-war between the central departments, battling with shortages, and the factories, determined to hold as large a stock as possible so as to keep their production from being disorganised."[117]

Pravda Ukrainy of 4th August, 1954 mentions a number of coal mines where actual capacity was utilised only 75 to 80 per cent, or even so little as 50 per cent. *Pravda* of 30th July, 1954 wrote of many steel-works which were not using their entire productive capacity and added: "In each works enormous reserves remain unused".

"The tendency of plant managements to submit plans below capacity, and their failure to produce the right product-mix, are perennial complaints in the Soviet press", writes Joseph S. Berliner, summarising his interviews with émigré Soviet bureaucrats.[121] The Soviet writer Arakelian quotes the case of the Kirov Works, with about fifty machines lying idle, some since 1945 and some even since 1939![122]*

An article in *Izvestia* of 3rd March, 1953 gives another typical instance, that of the Dzherzhinsky locomotive works at Murom. Expensive machines, required two or three years earlier, were still not being used. Altogether, the machinery was idle for 25 to 30 per cent, on the average, of the monthly working period, owing to the bad distribution of work and of raw material. In the A.A. Zhdanov tractor works at Vladimir there were in 1952 57,000 working hours totally lost as a result of the same causes.

Malyshev, at that time head of Soviet heavy industry, stated during the preparatory discussion for the 19th Congress of the C.P.S.U. that the mechanical engineering industry was using only 35 to 40 per cent of its annual capacity, owing to periodical interruptions of production.[125] In 1957 Khrushchev declared that there were over 25,000 milling machines too many in Soviet enterprises.[126] But at the 21st Congress A. Aristov gave the figures of 60,000 milling machines and 15,000 mechanical presses "which lie for years in the stores or else get rusty in the factory yards". This accumulation of unemployed equipment is facilitated by the rule that the depreciation charge of this equipment is not to be included in the cost of production of goods currently produced.[127]

* The bureaucrats have an even more direct interest in reporting a productive capacity lower than that which really exists. This is that the principal bonuses they get increase above all when production overfulfils the plan. The plan figures are themselves based on the known productive capacity of the enterprise. The lower this is, the more will actual production exceed the targets set by the plan, and the bigger will be the bonus received by the bureaucrats.

For the same reason, the technicians are often not much inclined to make changes in technical processes on their own initiative: "After the introduction of technical innovations, the screw of the plan will be tightened still more, and thereby the chance of fulfilling the plan and getting bonuses will be lessened."[123] In order to offset this conservative tendency the Soviet authorities seem to have introduced recently the payment of fees for the use of patents, which are to be registered for the benefit of the individual inventor.[124]

The constant presenting of false reports by the bureaucrats is a part of the same bureaucratic technique of reconciling the requirements of planning with the defence of their private interests.

This entire situation implies the lack of any interest on the part of the bureaucrats in an *overall improvement* in the national economy. The fulfilment of the plan—of certain aspects of the plan—by each enterprise is pursued without regard to the repercussions of the methods used on the economy as a whole. This is why, for 25 years, campaigns "for strict fulfilment of the plan", "for cutting down costs of production", "for greater economy in raw materials", "for fuller use of productive capacity", "for more rational use of reserves", have followed each other with monotonous regularity. Success obtained on one "front" usually makes things worse on another. The translation of a work published in Hungary in 1957 (Janos Kornai, *Overcentralization in Economic Administration*), strikingly confirms this diagnosis. *The Guardian* summarises the situation as follows:

"Specifying plans in great quantitative detail made the plan too rigid, since it would not allow for the changing needs of customers . . . If value figures were used instead, there was an incentive to distort production towards items of high value. Similarly, an attempt to keep a check on efficiency by the use of indices of labour productivity acted as a disincentive to producing goods with a high labour content. Indices of planned cost reduction encouraged the sacrifice of quality and the reduction of variety, and inhibited the introduction of new items of production. As the distortion caused by these indices was made apparent the planners were tempted to introduce further control indices to check the distortion, until there were so many indices that both the planners and the planned were completely baffled as to their significance."[128]

It must be added that, seeking for techniques which will make possible an *overall* achievement of the economic progress planned, and endeavouring to avoid excessive immobilisation of resources (Zasyadko spoke at the 21st Congress of the C.P.S.U. of 179 billion roubles invested in uncompleted construction projects,* and Arzumanyan mentioned the figure of 160 billion old roubles "frozen" at the beginning of 1964, to be compared with a total annual investment fund of less than 300 billion roubles for the same year),[130] the Soviet authorities propose to use as chief yardstick of fulfilment of the plan *profit*, i.e. the difference between receipts from sales and the cost of production, instead of the gross value of production, and to considerably reduce the number of quantitative targets laid down for the enterprises. The rights of managers are at the same time being considerably extended,

* At the January 1961 Plenum of the C.C. of the C.P.S.U., Khrushchev admitted that the famous Bratsk dam, built at enormous cost, still had insufficient consumers for its electrical power output.[129]

both in relation to the central administration and in relation to the workers.

This is the significance of what has been called the Liberman reform, which is bound to bring positive results in the field of consumer goods (better adaptation to customers' tastes), but the effects of which in the field of capital goods are likely to be much more dubious. Application of these reforms to however slight a degree will necessitate, moreover, a complete recasting of the price system,[131] and the charging of an *interest* on invested funds so as to calculate the "return" from different investment projects—calculations which, if they are carried through consistently, involve the risk of introducing elements of "spontaneous orientation" of investment into Soviet planning.[132]

The system of individual profitability of enterprises, combined with that of rigid prices previously laid down by the plan, thus does not solve but rather exacerbates the contradiction between the planned character of the economy and the personal interest of the bureaucracy, considered as chief driving force for fulfilment of the plan. If nevertheless the Soviet economy has achieved great successes, these have been due above all to the superiority of planned development of publicly-owned means of production over every previous mode of production.

The contradictions of bureaucratic management

The contradiction between the planned character of the Soviet economy and the personal interests of the bureaucrats, considered as chief driving force for fulfilment of the plan, is the principal contradiction introduced into the Soviet economy as a result of its specifically bureaucratic form of management.* The effects are combined with two contradictions resulting from this bureaucratic management: the contradiction between the high level of development of the productive forces and the scarcity of consumer goods, on the one hand, and on the other, the contradiction between the needs of integral planning and the harm done by bureaucratic hyper-centralisation.

Bureaucratic management brought about an exaggerated rate of accumulation which involved huge sacrifices by the mass of Soviet producers and consumers. The advance of the productive forces during the first four Five-Year Plans was accompanied by an extreme scarcity of consumer goods—a scarcity which, with the progress of industrialisation, has tended to decline *absolutely*, but also to become still worse *relatively*, because the requirements of millions of producers have increased at the same time. Under these conditions of scarcity of con-

* Oskar Lange writes in this connexion of "bureaucratic degeneration" of the Soviet economy, and points out that the government concerns itself with "concealing the share of the national income going to the bureaucracy".[133]

sumer goods there have inevitably arisen the "parallel market", clandestine production, and a series of economic activities outside the control of the plan. Petty commodity production is continually being reborn in the interstices of planned economy.

So long as the responsibilities of plant managers remain limited, this parallel market does not extend beyond the sphere of consumer goods. With the introduction of the principle of individual profitability of enterprises, however, its extension to the sphere of capital goods is inevitable—so long as this sphere, too, remains dominated by phenomena of relative scarcity of equipment, raw materials, etc. In order to receive bonuses* a given bureaucrat is obliged to attain a definite level of production by a fixed date; he therefore tries to ensure that he possesses the necessary quantity of raw materials, by putting up exaggerated demands to the authorities and by systematically underestimating the productive capacity of his enterprise, as we have already mentioned. But the higher authorities, who have to share out raw materials and equipment which they know to be scarce, themselves work in the opposite direction. What results is a constant tug-of-war, in which plant managers do not hesitate to offer prices higher than those laid down in the plan, in order to get what they need.[134] In spite of the formal instructions forbidding this practice, the higher authorities *closely supervise all the buying and selling transactions that go on between enterprises.*

The bureaucrats tried for years to get rid of this too strict supervision. At last, the 18th conference of the C.P.S.U., held in February 1941, adopted important decisions in this direction.[135] From that moment onward the system of *direct contracts* between enterprises and central administrations (*glavki*) was made general. Negotiation and competition suddenly acquired an overwhelming importance in relation

* These bonuses add up to a substantial amount. For the period 1948-1952 Berliner has compiled the following table:

Bonuses in % of basic wages of manager and chief engineer

	For fulfilment of the plan	*For every % of overfulfilment*
Engineering industry	from 22 to 37	from 2 to 4
Motor vehicles	from 20 to 30	from 2 to 4
Coal mines	100	10
Chemical industry	75	8

A manager in the chemical industry who exceeds the plan figure by 3 per cent thus *doubles* his wages; the difference between fulfilling the plan 98 per cent and 103 per cent means a difference of 50 per cent in income for the manager of a mechanical engineering works.

By a decree of July 1959, the importance of bonuses for the fulfilment and overfulfilment of plan for cutting down costs of production was increased relatively to that of bonuses for fulfilling and overfulfilling the physical volume of production and gross value produced.

to delivery conditions. At the same time, "the enterprises were evading the planned tasks and orders issued to them by their superior *glavki* and were entering into formal deals with each other. In this way they were succeeding in fulfilling and overfulfilling their plans in money terms, while evading the requirements of the plans of distribution."[136]*

For this reason, on 21st April, 1949, the U.S.S.R. Council of Ministers issued a decree introducing the system of a *yearly overall contract* between the *glavki* and other central organs, contracts between enterprises having to be fitted within the framework of this overall contract.† However, with the permission of a ministry, the system of direct contracts between enterprises can be retained alongside the system of yearly overall contracts.[140] Even after Khrushchev's reforms this system was, by and large, retained, and a great deal of raw material and equipment, including spare parts, could be obtained only against an *allocation certificate* (*naryad*).[141]

Finally, under the pressure of a long-sustained campaign waged by the plant managers, their autonomy was increased and the system of direct contracts between "suppliers" and "clients" was gradually re-established, with the industrial reforms introduced by Kosygin (September 1965 plenum of the C.C. of the C.P.S.U.).

Acting all the time under the lash of the relative scarcity of raw materials and equipment which puts fulfilment of the plan in jeopardy,[142] the Soviet bureaucrats are not content with a struggle for influence within the framework of legal "contracts". They carry on a veritable illegal hunt for these coveted goods. Parallel production of and parallel trade in capital goods thus grow up "behind the back" of planned economy.

In his report to the 19th Congress of the C.P.S.U. Malenkov confirmed that such phenomena existed, since he mentioned that some enterprises failed to fulfil their plan because they tried to fulfil it only during overtime periods (*sic*), while working during the day on private orders.

The chief personage on the parallel market in capital goods is the *tolkach* (the "fixer"), the more or less illegal intermediary who, while formally attached to a particular enterprise, travels around the country

* On a number of occasions the Soviet Press has published articles demanding that "the rights of managers be increased".[137] *Izvestia* of 29th June, 1957 raised this question in relation to the problem of direct arrangements between enterprises. An article in *Kommunist*[138] gives the impression that official doctrine nowadays accepts "the greatest possible degree of direct relationship between works which supply and works which buy".

† Countless claims and prosecutions arise from the non-fulfilment of these contracts. Many enterprises become totally immersed in arbitration and court cases.[139]

arranging illegal "deals". On 30th March, 1952 the satirical journal *Krokodil* gave a splendid little caricature of him, together with a short poem in which we were told that he can get anything: iron, bricks, timber, nails . . . The technique employed is almost always *blat*, which means bribing the higher authorities. It is not surprising that in Stalin's day the saying circulated in the U.S.S.R. that "*blat* is stronger than Stalin". The problem of the *tolkach* was widely raised in the preparatory discussion for the 20th Congress of the C.P.S.U. (see *Pravda*, issues of February 1956). Khrushchev's reforms did not solve the problem. An article published on 15th May, 1960 by a Soviet journal estimated that the factories in the *sovnarkhoz* area of Dniepropetrovsk were visited during 1959 by 7,000 (!) *tolkachi*.[143]

The harm done by bureaucratic hyper-centralisation was equally damaging. Because the central ministries strive to regulate the supply problems of the factories down to the smallest details, while at the same time watching jealously over their departmental prerogatives, it can happen that enterprises such as the Kirov turbine and generator works at Kharkov have to send applications to 150 different suppliers, scattered all over the Soviet Union.[144] A city like Leningrad sends every year nearly 100,000 tons of metal products to other towns, while an amount equivalent to half of this is being simultaneously sent from other centres to Leningrad.[145] During the discussions at the 19th Congress of the C.P.S.U. even more ridiculous examples were mentioned:

"The electrical equipment works in Novosibirsk is very well able to produce pig-iron, wrought-iron articles and other kinds of metal products. Nevertheless, this factory cannot accept orders for them. The matter is carried to absurd lengths. According to the planning department of the Ministry, the wages fund made available to the works is calculated exclusively on the basis of the production of constituent parts, excluding all the finished products. The works cannot keep up its production without orders from power stations very far away . . . [in the absence of which] it is obliged to artificially cut down its output."[146]

Departmental egoism has led to the establishment of "thousands" of small building enterprises, small garages, small power stations, operating independently of each other, under deplorable conditions of profitability* (see Khrushchev's speech published in *Pravda* of 8th May, 1957). The setting-up of the *sovnarkhozy* replaced departmental

* According to *Kommunist*, only 6·6 per cent of building enterprises are profitable.[147] Novikov, head of Gosplan, said at the 21st Congress that 100,000 (!) small power stations were employing 800,000 people and producing current which cost between one and two roubles a kwh., whereas the big power stations, producing 90 per cent of current, employed only 200,000 people and their cost of production was only 8 kopecks a kwh.!

egoism by regional egoism.* Enormous wastage results, along with increased administrative costs. The supply, storage and transport offices of the U.S.S.R. ministries alone expended in 1955 16·6 billion roubles in administrative costs, or 17 per cent of all the budgetary investment in industry.[149] This is why at the 23rd Congress of the C.P.S.U. the *sovnarkhozy* were dissolved and the so-called "industrial" ministries reintroduced. The new system of management combines a stricter degree of centralisation at the top with a greater degree of autonomy for individual enterprises—and will inevitably replace regional egoism by the egoism of these individual enterprises.

The contradiction between the non-capitalist mode of production and the bourgeois norms of distribution is the fundamental contradiction of the Soviet economy, as of every economy of the transition era. But owing to the bureaucratic management of this economy, the contradiction has been carried to extremes and given a sharply antagonistic character. It has developed into a contradiction between the use-value character of capital goods and the exchange-value character of consumer goods, and into a contradiction between the purely accounting role of money in the sphere of capital goods and the role of real equivalent for commodities which money retains in the sphere of consumer goods. The principle of individual profitability of enterprises reintroduces money as a real means of payment in the capital goods sphere. Thereby, a tendency for commodity production and commodity circulation to reappear in the capital goods sphere makes itself felt, with all that this implies—a tendency for planning itself to be disorganised.

Bureaucratic management and workers' conditions

Under conditions of bureaucratic management of the economy, planning has been carried through in the Soviet Union with a rate of accumulation such that, taking into account the enormous amount of waste involved in this form of management, the standard of living of the producers was at first not raised but considerably lowered. Under these conditions, coercion, both political and economic (reduction of the basic minimum wage below subsistence level), became the chief instrument used by the administration to force the working class to increase productivity. The bureaucratic struggle for output led to a continual reinforcement of social inequality and the establishment of an increasingly strict labour code.

The difference in income between the category of unskilled workers with the lowest wages (sweepers, porters, night-watchmen, etc.) and

* E.g., during the first nine months of 1960, the metallurgical enterprises of the Ukraine supplied their Ukrainian customers with 132,000 tons of metal and 21,000 tons of steel tubes over and above the requirements of the plan, whereas their deliveries to the other republics fell short of the plan in respect of 82,000 tons of rolled iron and 18,000 steel tubes.[148]

high-level engineers was as one to twenty in 1935.[150] In 1951 a delegation of Belgian trade unionists visiting the U.S.S.R. found similar differences: a sweeper with a gross monthly wage of 300 roubles, a charge-hand in a blast furnace with 3,000 roubles, and an engineer with 5,000 roubles.[151] The British delegation at the Moscow economic conference of April 1952, led by persons very sympathetic to the Soviet government, reported differences a little less extreme as regards gross basic wages: 300 roubles a month for the sweeper, 700 to 800 for a lorry-driver, 2,500 for a technical section head in a ministry. Official Soviet sources show for 1958–1959 a range of monthly basic wages from 342 roubles for a labourer to 2,800 roubles for a manager in the chemical industry—of course, without taking bonuses into account! [152] However, the higher one goes in the bureaucratic hierarchy, the more do bonuses constitute an important addition to one's wages. The same reports of the British delegation at the Moscow economic conference of April 1952 show that the *total* gross monthly income of the head of a large enterprise in Moscow comes to 7,000 to 8,000 roubles.[153]

Among the workers in the strict sense of the word very considerable differences of income have been introduced, with consequences that can be imagined as regards the internal cohesion of the working class. Maurice Dobb's claim[154] that the spread between the lowest and highest wage-levels for workers is as one to four is contradicted in his own book: he there mentions, on pages 92–94, that in 1936 the lowest wages were 110 roubles a month, while non-Stakhanovite skilled workers earned 500 roubles and Stakhanovites sometimes earned as much in a week as previously in a month. The journal *Voprosy Ekonomiki*[155] reported in 1959 that the wages of skilled workers were eight times those of unskilled men.

This extreme differentiation of workers' incomes pushed the basic rates below subsistence level and compelled married women to go out to work in order to obtain the simplest means of life. All through the Stalin era it continued to be the chief method used to stimulate increased output.

Piece-work was made general.* Work-norms were progressively raised. Wage-rates rose much less than productivity, when the latter increased.[157] Struggle for the intensification of labour often took precedence over struggle for increasing productivity through rationalisation of technical methods and organisation of labour.[158] Nevertheless, the intensity of physical effort usually remained below the level in the advanced capitalist countries. While Stakhanovism did indeed increase

* The percentage of all wage-earners in industry paid on a piece-work basis rose from 57·5 per cent in 1928 to 76·1 per cent in 1936 and 77 per cent in 1953. Since then, as a result of the post-Stalin reforms, it has been on the decline—72 per cent in 1956, 60 per cent in 1961.[156]

the productivity of labour, it achieved this result by intensifying the stratification of the working class. Stakhanov himself increased his output of coal because he worked only with the pick, thus obliging a number of his fellow-workers to do nothing but shovel the coal away: *

"The main contribution made by Stakhanov workers lay in the clearly perceived distinction between the basic process and the accessory and complementary operations; this allowed them to release the highly skilled worker from the necessity of performing functions which would be carried out by less skilled men."[159]

It is clear, however, that thanks to the copying of the most advanced machinery and working methods of the capitalist countries, the productivity of labour made huge progress right from the start of Soviet planning, as is shown by the following figures:

	Annual production of cast iron per worker employed (in tons)		
	1913	*1929*	*1937*
Russia	205	240	756
Britain	356	366	513
U.S.A.	811	1,729	1,620
Germany	—	—	612

	Annual production of coal, per miner (in tons)	
	1929	*1937*
Russia	179	370
France	—	195
U.S.A.	844	730
Germany	325	435[161]

The American economist Walter Galenson came to the conclusion that, already before the war, productivity in Soviet industry was on the point of catching up with that of British industry and was about 40 per cent of American. For 1960, Abram Bergson estimated the productivity of labour and of invested "capital" in the U.S.S.R., per unit, at 54·9 per cent of the figure for the U.S.A.[162]

The crudest of methods were employed to impose on the worker freshly arrived from the village his apprenticeship to "socialist labour discipline". "In 1933 the All-Union Central Council of Trade-Unions . . . declared as inadmissible the confirmation by the R.K.K. (Rates and Conflicts Commission in a factory) of norms and rates introduced by the management on the one-man management principle."[163] From

* This is admitted in the new *History of the Communist Party of the Soviet Union*, which states that Stakhanovism implied a "proper division of labour in production, the release (*sic*) of skilled workers from secondary or preparatory work . . ."[160]

then on there were no more genuine collective agreements or negotiations on questions of work-norms and wages, which were henceforth to be settled unilaterally from above.

In 1935 occurred the last public conflict between the trade-union leadership and the administration of a large enterprise (the *Krasny Profintern* locomotive and railway-carriage works near Bryansk) over the unilateral decisions of a management. Despite the fact that the trade unions had the law on their side, they were strongly censured by the C.C. of the C.P.S.U.[164] In fact, though the Soviet workers possess, on paper, many organs and authorities for safeguarding them against abuse of power by bureaucrats, special disciplinary codes eliminate these possibilities of defence in a number of key sectors of industry.[165]*

The Soviet labour code was from that time on undoubtedly the strictest in the world. It was openly coercive in tendency, especially after the decrees and regulations introduced in 1938–1941 and retained after the end of the war:[167] the laws and decrees of 20th December, 1938, on the introduction of the labour passport; of 28th December, 1938, on penalties for lateness in coming to work and on the abolition of social security benefits for workers "guilty" of such "offences";† of 26th June, 1940, on moving from job to job and on absenteeism, punished by imprisonment if exceeding twenty minutes (!); of 18th January, 1941, on discipline in workplaces, etc.[168] The decree of 26th June, 1940 forbade workers to change their place of work, except where compelled to do so, under conditions provided for by the decree.[169]

According to a decision of the Supreme Court of the Soviet Union, refusal to work overtime when ordered by the management of a factory, or even refusal to submit to an order to work on a legal holiday, was assimilated to absenteeism and penalised by wage-reductions or terms of imprisonment—although such orders are illegal under Soviet law! Although this decision was given in 1941, it was thenceforth embodied in current regulations.[170]

* Such a code exists, for instance, for the machine-tool industry.[166]

† It should be mentioned that sickness benefit is double for trade-union members what it is for non-members. For trade-union members it varies according to the period of employment in the same enterprise, in the following proportions:

		in % of wages	
Period of employment	*1938*	*1948*	*1955*
Up to 6 months	0	0	0
From 6 months to 3 years	50-60	50	50
From 3 to 5 years	80	60	60
From 5 to 6 years	80	80	70
From 6 to 8 years	100	80	70
From 8 to 12 years	100	100	80, etc.

The brutality and arbitrariness of bureaucratic management, inevitable under a system of distribution based on substantial privileges amid a still acute scarcity of articles of prime necessity, led to an exceptional degree of social tension. From this resulted the terrorism employed by the state towards its citizens, the system of forced labour camps,* the important role played by the political police in all spheres of social life.

Having deliberately chosen to base themselves on the interests of privileged minorities rather than on those of the mass of the workers, in order to give the necessary impetus to industrialisation, the Soviet leaders created a highly stratified society. According to official statistics, the percentage of workers among the members of the Supreme Soviet declined from 45 in 1937 to 42 in 1946 and 35 in 1950. In the Moscow Soviet it stood at 29 per cent in 1953.[172] In the Soviet of the Union only 10 per cent of the delegates were workers in 1950, 80 per cent being officials, whether of the state, the party or the armed forces.

At the 20th Congress of the C.P.S.U. fewer than 20 per cent of the delegates were "directly employed in industry and transport". Even this figure was 2·7 times as big as at the 19th Congress![173] The abolition of free secondary and higher education in 1940 markedly contributed to this shrinkage. Bienstock and Schwartz point out that, already before this, the percentage of students who were workers or children of workers had declined from 46·6 per cent in 1931 to 33·9 per cent in 1938, though the proportion of workers in the occupied population had notably increased.[174]

Innumerable pieces of evidence from Soviet sources bear witness to the fact that the bureaucracy has become a caste with a clear awareness of its special interests. References are constantly met to managers who talk about "their" factories and "their" machines (see e.g. *Literaturnaya Gazeta* of 27th November, 1951, and the play *Moscow Character*, by Anatol Safronov, published in *Oktyabr* for January 1949. See also the caricature in *Krokodil* No. 23, 1957). *Pravda* of 5th January, 1950 wrote of "fear and intimidation" as the basis of relations between workers and management. "Labour legislation is trampled on by the management", wrote *Trud* of 2nd February, 1957, about the tractor and motor vehicle industry. The same formulation was used in the same paper, 8th September, 1953, with a more general application. "There are still a crowd (!) of business executives who trample insolently on the rights of Soviet citizens."

Bureaucrats "refuse to accept any position but that of manager". They bring up their children as "gilded youth" who receive 1,000

* Naum Jasny[171] estimated, on the basis of Soviet secret documents, that the number of forced labourers was 3·5 million in 1941, and their output 1·2 per cent of Soviet industrial production. Immediately after the war this figure was much higher.

roubles pocket money a month—more than the average worker's wage. Their "service cars" take them to their *dachas* and on holiday. Their *dachas* cost hundreds of thousands of roubles, constitute a real "capital investment", and enable their heirs to "live on unearned income" if they sell them "at a profit". The writer of the article we have just been quoting lists as follows the owners of these *dachas*:

> "Writers, painters, actors, scientists and other persons to whom the government has given priority . . . Plant managers, leading officials of co-operatives, public restaurants, building organisations and municipal services . . . private lawyers."[175]

The system of bureaucratic management and brutal subordination of the workers to the bureaucracy means a monstrous wastage of the social surplus, even from the purely economic standpoint.* According to recent statistics, one-third of the wage-earners in the U.S.S.R. are office workers. The existence of this huge mass of bureaucrats both reduces the consumption fund of the producers and also diverts a large share of the social surplus into unproductive consumption.

The disproportion between the development of light industry and that of heavy industry, which underlies the bureaucratic form of management, has become a deep-going weakness in the economic system. Its repercussions on the development of heavy industry itself—especially through the holding back of productivity and the creative effort of the producers which it implies—are becoming bigger and bigger.

But in proportion as the productive forces develop, the general level of technical skill and culture of the producers grows, and the relative weight of the working class in the population as a whole increases, the arbitrariness and tyranny of the bureaucracy weighs more and more unbearably upon the mass of the workers. For a new leap forward by the planned economy there are needed more freedom, more initiative, less regulation from above, more spontaneous activity by the mass of

* The Soviet journals *Voprosy Ekonomiki* and *Industria* (organ of heavy industry) compared at the beginning of the war the number of workers in a Soviet and an American enterprise of the same size. The result was alarming. In the Kemerovo power station, which has the same potential and the same method of production as that of South Amboy in the U.S.A., there were 480 workers, compared with only 51 in the American power station. In a coal mine forming part of the Kizelugol (Ural) trust, and which produced half the coal produced by a comparable mine in Pennsylvania (Pittsburg Coal Company), there were twice as many miners, three times as many surface workers, eight times as many office workers, and eleven times as many managerial and supervisory staff! According to another Soviet journal, *Sotsialisticheskoye Zemledelie*, there were in the *kolkhozy* at least 1·5 million accountants, supervisors, messengers, etc., too many.[176] Khrushchev boasted in 1957 that he had cut down bureaucratic staff by 900,000 during the previous three years.[177] That did not prevent him from denouncing at the beginning of 1961 enormous abuses and embezzlements committed by the bureaucracy in agriculture.

producers. But the Stalin régime denied these liberties, to a large extent, even to the bureaucracy itself. Thus, from 1950 onward, conditions were ripening for the reforms of the Khrushchev era.

In order to increase industrial productivity and to remove one of the essential causes of popular discontent, the forced labour camps were largely abolished and the labour code substantially moderated. The punishments for lateness and absence were abolished. Certain rights were once more given to the trade unions in relation to control of dismissals—caused by the advance of automation—work-norms, wage-rates, etc. Social inequality was slightly reduced by raising of the lowest wages and reintroducing free secondary and higher education. At the same time a certain amount of so-called frictional unemployment once more made its appearance.

Finally, the considerable increase in the production of consumer durables, and an immense effort in the field of house building, tended to reduce somewhat the disproportion between the high level of development of the productive forces and the low standard of living of the people. Real consumption per head of population increased by 66 per cent between 1950 and 1958, a year in which it reached a level nearly double that of 1937 and of 1928 and three times that of 1944.[178] But while the sixth Five-Year Plan could not be fulfilled* the Seven-Year Plan which replaced it was not fulfilled either, in the field of consumer goods. The increase in the standard of living slowed down—to stop altogether for a time in 1962, when the rate of growth of the economy also fell. Thus ended the Khrushchev era, and new reforms introduced in 1964–1966 have the purpose of stimulating once more this rate of growth during the eighth five-year period.

* Here is a comparative table of targets laid down by this plan for 1960 and production actually achieved:

	Sixth Five-Year Plan target for 1960	*Actual production in 1960*
Coal (millions of tons)	593	513
Petrol	135	147·9
Steel	68·3	65·3
Cement	55	45·5
Electric power (billion kwh.)	320	292·3
Cotton goods (billion metres)	7·27	6·39
Shoes (million pairs)	455	419·3

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CHAPTER SIXTEEN

THE ECONOMY OF THE TRANSITION PERIOD

The third industrial revolution

WITH the nineteen-forties appeared the warning signs of a third industrial revolution. The first industrial revolution had been based on the steam engine, the second on the electric motor and the internal combustion engine. The third industrial revolution is based on the release of nuclear energy and the use of electronic machinery.

The productive employment of atomic power is the first answer human ingenuity has discovered to the problem, which some regard as an agonising one, of the loss of world power resources; the second and doubtless final answer will be the employment of thermo-nuclear and solar energy.

Already now, atomic power could cut the costs of industrialising certain under-developed areas (Latin America, large parts of India or China) where coal is scarce or hard to transport, and where hydro-electric power is more expensive than atomic power.[1]

Monopoly capitalism severely hindered for over a decade the full flowering of the third industrial revolution. It is significant that the first steps towards the building of atomic power stations integrated into the electricity distribution grid were made not in the U.S.A., though it possesses more information in the atomic field than any other country, but in the U.S.S.R. and, especially, in Britain. Considerations of self-interest on the part of the great electrical plants and of the oil trusts, both of them controlled by the most powerful finance groups in the U.S.A. (the Bell system, linked with the Morgan group, and the Rockefeller group) stood in the way of a rapid development of atomic power stations. Nevertheless, owing in part to international competition, this obstacle eventually collapsed. The third industrial revolution is under way.[2]

Semi-automatic production processes had already been introduced in the 1930s, as the final culmination of assembly-line methods. After five years of research and experiment, costing 8 million dollars, the A.O. Smith Company of Milwaukee succeeded in building a series of machines which produced motor-car chassis at the rate of 7,200 a day, by taking the metal sheets and transforming them into chassis by way of 522 different operations. The 200 or so workers employed in this work carried out what were essentially functions of supervision and checking.[3] These examples were repeated in a number of enterprises in the U.S.A., the U.S.S.R., Britain, and, later, Germany.

In order to advance from semi-automatic production to automation pure and simple, it is necessary to eliminate manual work at the beginning and at the end of the assembly line, in the starting and stopping of the machinery, in the checking of quality and quantity of production, and in the overall supervision needed. These tasks are taken over by electronic apparatus.[4] There are already many different applications of this technique, and the number increases every year. We may mention the production of tyres and of steel tubes for oilfields, and the mechanised manufacture of glass and paper, from which human labour has in some cases been completely eliminated. Then there is the factory where four(!) supervisors are the only human beings seeing to the production of gramophone records by sixteen machines, and the shell factory at Rockford, Ill., where no human hand touches the product, from the initial introduction of blocks of steel right through to the packing of the shells.[5] The automatic ball-bearings factory in Moscow can be compared to these automatised enterprises. The most remarkable development in this field has been electrical power stations and oil refineries operated by remote control and functioning without any workers at all on the spot.[6]

Present-day technique has thus found a "final" answer to the oldest of objections to a socialist economy: "Who, under socialism, will do the hard, unpleasant and unhealthy types of work?" Today the answer is clear: machines will perform all these tasks, by themselves. Ten years ago, Professor Wiener already showed that once prototypes of control and supervision machines had been successfully constructed, any machine based on the same principle could be constructed, on a declining scale of costs, to the point at which making them would be found profitable not merely from the social standpoint but also from that of economics.[7]

But while the third industrial revolution is creating a tremendous potential for releasing mankind from the burden, drudgery and boredom of mechanical labour which is unworthy of him, it involves at the same time some immediate threats to the survival of the human race.

The first and second industrial revolutions were able to develop completely within the framework of the capitalist mode of production, even though at terrible cost and excessive sacrifice for the people who lived through them. The third industrial revolution is breaking through the framework of private property. In every country, it has been possible to develop atomic power only in public laboratories and enterprises. Its transfer pure-and-simple into the private sector would involve the risk that mankind might be at the mercy of a madman with the power to blow up entire countries. Nuclear technique is the first modern technique for which advanced forms of public control are indispensable, not only for the sake of profitability, health or justice, but in order to safeguard the very survival of mankind. Even in the hands of capitalist states, this technique is a threat to the existence of mankind, in so far as it implies an arms race and the risk of atomic war.

Furthermore, automation entails such a development of the productivity of labour* that only a complete upheaval in the economic system (a radical reduction in prices, tending towards zero, and in working hours, etc.) can in the long run prevent it from being a constant source of disturbance. The number of workers engaged in production is falling both relatively, and, sometimes, absolutely. From 1953 to March 1960, industrial production increased in the U.S.A. by over 22 per cent, but industrial employment fell by 11 per cent. Between 1947 and 1952, production in the electronics industry increased by 275 per cent, whereas employment in this industry grew by only 40 per cent.[9] In France, between 1953 and October 1961 the number of workers employed in industry increased by 4 per cent only, while industrial production increased by 89 per cent.[10]

Moreover, the third industrial revolution substitutes machinery for mental work, to the same extent as the first substituted it for manual work. Office workers, accountants, checkers are being replaced in thousands, in the banks, the insurance companies and the offices of the big factories, by electronic computers.†

Paradoxically, the introduction of automation on a private basis leads to higher prices, under-employment and the diversion of an increasing number of workers into unproductive jobs. Technocrats even envisage the creation of an economic system from which men, these "difficult and tricky things to play around with", will be completely eliminated,[12] and will be fed free of charge, like the proletariat of ancient times, by the new masters of this monstrous form of society.

The third industrial revolution can thus lead either to plenty or to the destruction of freedom, civilisation and humanity. In order to avoid the worst, the use of automation must be subjected to conscious control by men. The gap between the triumph of the natural sciences and

* According to Henri Jannes, engineer in chief of France's telecommunications, the productivity of a workshop is multiplied by a factor somewhere between 15 and 20 when it goes over from ordinary machinery to automatic, and at the level of the entire factory, the increase is of the order of 500 per cent.[8]

† "Even the layout of the large office is coming more and more to resemble that of the factory, with straight-line flow of work and in some cases assembly belts for moving paper work from point to point. Each worker does a fragment of the complete operation. The repetitive task of a comptometer operator, for example, depends upon the repetitive tasks of file clerks, stenographers, accountants, and messengers before and after her task is performed."[11]

the abandonment of human affairs to the "automatism of the market", or the egoism of the property-owners, must be overcome. If they are not to be transformed into forces of universal destruction, the productive forces released by the third industrial revolution must be tamed, made tractable, civilised, by means of *a world plan of economic development*. They must bring about the conscious management of human affairs, or, in other words, a socialist society.* The latter is helped, moreover, by certain aspects of modern technique, as electronic computers enormously facilitate the work of planning.

Need for a transition period

Socialist economy means an economy based on the satisfaction of needs and not on the search for profit. If the capitalist mode of production were to be abolished on the world scale it would be possible to go over at once, without any transition other than that required by political events,† to the organisation of an economy in which commodity production is abolished and which adapts men's productive efforts to the satisfaction of current needs. The only condition for such a rapid and far-reaching transformation would be *restriction of needs to the most elementary ones*: men would have to be content with eating just enough to appease their hunger, dressing quietly, living in a rudimentary type of dwelling, sending their children to schools of a quite elementary kind, and enjoying only a restricted health service.

The productive forces at mankind's disposal today make it possible to satisfy these needs without any transitional phase of accumulation or further industrial progress. Existing productive forces would, of course, have to be redistributed on a colossal scale, with conversion of the motor-car industry into an industry producing tractors and agricultural machinery, direction of the chemical industry exclusively towards the production of fertilisers, articles of domestic need and pharmaceutical products, concentration of scientific research on prob-

* "The answer [to the threat of automation], of course, is to have a society based on human values other than buying or selling. To arrive at this society, we need a good deal of planning . . .", writes Norman Wiener.[13]

† The period in which society is making up for the "incidental expenses" of the transition from capitalism to socialism, the consequences of the destruction and disorganisation which are momentarily entailed by any social revolution, may be called the "frictional transition period". In *The Economy of the Transition Period*, N. Bukharin devotes an interesting chapter to this problem.[14] Unlike this "frictional transition period", which presents only problems introduced from outside into the economic mechanism, the transition period in the strict sense, which is dealt with later, presents intrinsic economic problems. In the former case it is a matter of getting back from contracted reproduction to simple reproduction, in the second a matter of advancing from expanded reproduction with a moderate growth-rate to expanded reproduction with a higher growth-rate.

lems of feeding, clothing, housing and health, and devotion of the bulk of world production to the under-developed countries.

It may be denied that existing productive forces are adequate to meet even the most elementary needs of mankind, in food, housing and health. This objection, however, will not stand up. The proportion of the world's chemical industry which is at present devoted to producing fertilisers and pharmaceutical products is so small that the amount produced could easily be increased threefold, fourfold or fivefold without any need for a period in which productive capacity was increased. As for food, the table drawn up in 1944 by R. Salter, one of the world's leading specialists on this question, estimates maximum potential production as follows, in millions of metric tons:

	Pre-war production	*World needs in 1960, according to the physiological optimum*	*Production attainable*	
			from present cropland	*ditto plus 1,300 million new acres*
Grain	300·4	363·5	360	753
Roots and tubers	153·2	194·5	230	535·5
Sugar	30	33·6	34·5	178·1
Fruit and vegetables	156·3	411	211	470
Fats and oils	15·2	20·4	18	70·9
Meat	65·6	95·8	78·7	968
Milk	150·2	300	180·2	323·2[15]

It should further be noted that the huge increase in agricultural productivity since 1947 makes necessary an upward revision of the third and fourth columns, involving an increase of 20, 30 or even 50 per cent in the figures, depending on the particular category of products.*

But such an "immediate" introduction of an economy based on distribution according to need, taking into account only the "frictional transition period", would come up against two insuperable obstacles.

First, as regards a considerable part of mankind, needs at present satisfied are very much in excess of these elementary needs. The

* Here are a few pointers which support this optimistic diagnosis. Of 350 million argriculturalists in the world, 250 million still work with wooden ploughs. For the 100 million more advanced peasants there are only 10 million tractors. Conversion of the motor-car industry to tractor production would make it possible to produce more than 10 million tractors *a year*. Furthermore, Professor Baade observes that world consumption of fertilisers amounts to only 10 per cent of the amount needed for optimum exploitation of the land at present under cultivation throughout the world, taking into account the geological and climatic conditions in each country. This would necessitate an annual production of 60 million tons of potash and nitrate fertilisers.[16] Present world productive capacity comes to only 15 to 20 per cent of this figure, but a reconversion of the chemical industry would enable it quickly to come up to the level of needs.

majority of the inhabitants of the industrially advanced countries are not at all content to eat, drink and dress soberly, to be housed more or less adequately, to teach their children to read and write, and to look after their health on a first-aid basis. The world-wide expansion of the production and circulation of goods, over several centuries, has widened their horizons beyond the narrow limits of their birthplace or even their own country. It has brought about a universalising of needs which is merely a first awareness of the unlimited possibilities of free human development. They want to decorate their houses, change the fashion of their clothes, free themselves from heavy housework (heating, washing, etc.), amuse themselves, travel, read, study, protect themselves more and more securely against illness, increase their expectation of life, educate their children better and better.

The satisfaction of these basically healthy needs—to which commodity-producing industry has, it is true, added needs which are artificial, or artificially inflated—is to some degree guaranteed in the most advanced capitalist countries. Abolishing root and branch the sectors of industry which make it possible to satisfy these non-elementary needs would mean at once causing a fall in the standard of living of a large section of the inhabitants of the industrialised countries. It would mean a sort of "socialism of poverty" in which rationing by ration-card and the restricted variety of products available would replace rationing by the purse. Instead of making possible a universal development of human potentialities, a "socialism" like this would produce a man even more stunted and less satisfied than the average inhabitant of the advanced capitalist countries of today.

Again, the inhabitants of the under-developed countries have themselves become aware of the enormous possibilities of present-day technique, thanks to the "imitation and demonstration effect" elucidated by Duesenberry.[17] They fiercely desire to achieve the same level of civilisation and comfort as the people possess in the advanced countries. They are no readier than the inhabitants of the industrially advanced countries to accept an ascetic socialism in which rationing takes the place of plenty.

But present productive forces are quite inadequate to provide the whole of mankind with up-to-date comfort. According to a League of Nations publication, the annual exports of finished industrial products in 1926–1929 would have had to be multiplied *by sixteen*, or the total amount of world trade in that period *trebled*, in order to put at the disposal of the under-developed countries merely *half* of the amount of finished industrial goods per head of population which was enjoyed by the inhabitants of the industrialised countries.[18] Twenty-five years later, a United Nations publication confirmed this estimate.[19]

A fresh powerful expansion of the productive forces is thus indispensable in order to ensure an abundance of industrial goods for all the world's inhabitants. This expansion undoubtedly requires a doubling, or even a trebling, of present-day world industrial production. *It implies the need for a period of transition between capitalism and socialism, a period of socialist accumulation.* During this period, on the basis of socialisation of the chief means of production and exchange, and of world-wide economic planning, a degree of development of the productive forces (both mechanical and human, the latter implying a gigantic educational drive) can be attained which will make possible an economy distributing its goods and services in such a way as to cover all the needs of the people involved in it.

Finally, the present level of civilisation and comfort of the industrialised capitalist countries, even though it greatly exceeds the wretched level of the under-developed countries, is far from ideal. Though many phenomena of waste and useless luxury are to be found in it, and though as regards food and clothing ideal physiological norms are being approached in the richest countries,* nevertheless, town-planning, housing, private and public transport, secondary and higher education, health services (and especially preventive medicine), scientific research, artistic development, the organisation of popular tourism, the circulation of books and of ideas in general, all suffer from under-development and crying inadequacies.

To give only a few examples:

> In 1954, 30 per cent of the dwellings in Sweden and Norway, 41 per cent of those in France and 65 per cent of those in Italy were without running water.
>
> In the same year, 38 per cent of the dwellings in Britain, 30 per cent in Switzerland, 57 per cent in Germany, 70 per cent in Sweden and in Holland, and between 80 and 95 per cent in all the other countries of Europe were without a bathroom.[21] In Britain slum dwellings were numbered at 850,000, in Belgium at 200,000 and in

* Here are estimates made by the Soviet economist P. Mstislavsky.

	Annual consumption per head of population		
	Ideal rational norms	*U.S.A.*	*Britain*
Meat (kg.)	73–91	73·7	48·3
Fish (kg.)	7–16	5·1	10·4
Milk (kg.)	292–585	240	209
Sugar (kg.)	27–33	45·3	38·1
Eggs (units)	175–370	392	227
Cotton goods (metres)	50–57	54·3	25·6
Woollens (square metres)	4·9–7·2	2·7	5·6

These norms of rational consumption were worked out by the Soviet Academy of Sciences, taking into account, on the one hand, different climatic requirements, and, on the other, reciprocal compensation as between different products which can be substituted for each other. Hence the sometimes marked variations in these norms.[20]

the U.S.A. at 13 million. And even the dwellings regarded at present as normal or even comfortable often deserve to be replaced as part of a programme of rational reconstruction of towns in accordance with the principles of town planning.

Around 1950, annual output of books per thousand inhabitants was in France and Italy only 50 per cent of the level in the Scandinavian countries, in Germany 35 per cent, and in the U.S.A. 14 per cent.

Around 1955, in most of the Western countries, the number of secondary school pupils of working-class origin was less than 50 per cent of the number of middle-class origin. University students of working-class origin rarely made up more than 10 per cent of the total in countries where the working class constituted 50 per cent or more of the occupied population. In Britain, according to the Crowther Report, 70 per cent of all children still left school for good at the age of 15.

Around the same year, infantile mortality among skilled workers was *double*, and among labourers *three times* what it was among the bourgeoisie, in Britain and France, in spite of social security.

In 1957, between one-third and two-fifths of the families in Western Europe were still without radio sets, and only 10 to 20 per cent of families had a washing machine or a refrigerator.[22]

Finally, even in the U.S.A., the richest country in the world, nearly 60 per cent of persons aged over 65 had to exist on less than a thousand dollars a year in 1958.[23]

A tremendous productive effort is thus needed, even in Europe, in order to achieve for everyone the optimum standard of life which science and technique make possible today. The transition period between capitalism and socialism must enable this effort to be made.

Sources of international socialist accumulation

World economy is the ideal framework for solving the crucial problem of the transition period, that of socialist accumulation. Given this framework, indeed, socialist economy would be able to exploit to the full the advantages of the world division of labour, without, of course, treating it as something unchangeable, modifying it in proportion as the under-developed countries become industrialised, but deciding on the world scale the optimum locations for industrial, mining and agricultural activity which would make it possible to save the maximum amount of labour, both living and dead. 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. Thanks to this redistribution, the world rate of accumulation, and especially the rate of industrialisation of the under-developed countries, could be considerably increased, while the standard of living of all the peoples could be raised at the same time.

This seems at first to be contradictory. How is it possible to increase simultaneously the rate of accumulation and the real volume of world consumption? The key to the mystery lies in the existence of *an immense fund of unproductive consumption*, the most important part of which, arms expenditure, has certainly amounted to more than 120 billion dollars *a year* for several years now.

The amount of capital needed for rapid industrialisation of the under-developed countries has been estimated by a number of writers. A United Nations publication estimates at 2,500 billion dollars the investments which would give the whole continent of Asia an individual product per head of population equal to that in Japan on the eve of the Second World War.[24] This represents merely 20 annual contributions of 120 billion dollars, and the enormous industry thus created would itself furnish the resources needed to double this income within a dozen years. Taking into consideration the population of Africa and of Latin America, the funds required for an "industrialisation without tears" of the whole of under-developed mankind* can be estimated at some 3,000 billion dollars. By devoting for between thirty and forty years the resources at present wasted on rearmament to the industrialisation of the "third world", the "world problem" could be solved before the end of this century.

Professor A. Bonné has put forward estimates which are somewhat more optimistic. He calculates that 170 billion dollars would be needed, over 15 years, in order to increase income by 250 per cent and bring down the proportion of the occupied population engaged in agriculture from 80 per cent to 65 per cent in Asia. Investment not of 170 but of 850 billion dollars would raise income to ten times the starting level, and less than half of the occupied population would be engaged in

* This figure has been arrived at like this. At present, the income of some 1·4 billion inhabitants of the under-developed regions is estimated by Tinbergen at 130 billion dollars. According to Paul G. Hoffman, 7 billion dollars aid each year would make it possible to increase income per head by 2 per cent per year.[25] Aid at the rate of 70 billion dollars would thus make possible an increase of 20 per cent per year in this income per head. The growth of the population of these areas is estimated to be proceeding at such a rate that in forty years it will have increased from 1·4 billion to 3·1 billion people. At the same time, the rate of internal saving in these countries, at present 5 to 6 per cent, would stand after 10 years at 8 to 10 per cent, at 15 per cent after 20 years, and 18 to 20 per cent after 25 years. Assuming that the investment of 3 dollars increases income by one dollar, income per head would then rise from 100 dollars at present to some 220 after 10 years, 315 after 15 years, 375 after 20 years, 425 after 25 years, 510 after 30 years, 620 after 35 years, and 800 after 40 years, which would be equivalent to the present income per head in Britain. It should be observed that from the 27th year onward, the effect of internal saving would exceed that of foreign aid.

agriculture. But he quotes a United Nations source which estimates at 19 billion dollars a year the resources needed to increase income by 2 per cent and shift 1 per cent of the population of all the underdeveloped countries into industry.[26] By multiplying these figures by five, we obtain an annual rate of growth of 10 per cent, giving a total income multiplied by 15 after 30 to 35 years, the same result as previously obtained.

We are not unaware that human problems—changing of ways of life and habits; adaptation to rationalised urban existence; problems of education, technical training, etc.—may well delay this process considerably. The mere fact, though, that the *material* solution of the problem is theoretically conceivable before the end of the century ought to give rise to a veritable revolution in the behaviour of men and nations.

The advantage of this solution lies in the fact that in the industrialised countries this huge effort would not have to be paid for by any cutting down of popular consumption, either individual or collective, nor by any slowing down of economic expansion. The structure of industry itself would not be essentially modified. Within the framework of a world plan of economic development, all that would be needed would be to reconvert the arms factories, turning them over to the production of capital goods, building materials, means of communication and transport for the "third world", and to finance, without any increase in cost, the training of teachers, technical instructors, engineers, doctors, nurses and psychologists in these countries, instead of training officers, airmen, rocket-builders, specialists in logistics or "welfare" experts for the armed forces.

All the advantages entailed by national economic planning and the abolition of the capitalist régime in the advanced industrial countries would then remain at the exclusive disposal of the peoples of these countries, and enable them to make a new leap forward in their standard of living.

The working out of a world plan of economic development on these lines—mankind's task No. 1—would in addition enable the underdeveloped countries to acquire immediately the most up-to-date forms of modern technique. It would save them from the need to pass through the successive stages undergone by the industrialisation of the capitalist West or the Soviet Union. It would make possible a rationalisation of the use of the world's resources going far beyond the boldest dreams of mankind. Gigantic projects which even today are too great to be accomplished by the most advanced countries—the irrigation and fertilisation of the Sahara; the transformation of the Amazonian jungle; the settlement and industrialisation of Sinkiang; the organisation of expeditions to the planets—would be put into practice by a joint effort of the human race, so as to increase the well-being of all men. The enormous waste implicit in the continued existence of the national state—not only through military expenditure and customs administration, but also commercial waste such as the ban on the export of used cars from the U.S.A., which results every year in over a million vehicles, perfectly capable of remaining on the road for a long time yet, being transformed into scrap-iron—would be done away with at one blow.

Sources of socialist accumulation in the industrialised countries

To solve the problems of the transition period a fresh advance of the productive forces will be needed. In the industrially advanced countries this advance can evidently be made without a lowering of the living standards of the masses. On the contrary, indeed, it can go forward in company with a rapid improvement in this standard. For this purpose it will be sufficient to list the forms of waste implicit in capitalist economy and which socialist planning will be able to eliminate.*

This is where the chief, if not the only, source of any additional accumulation fund needed for more rapid economic growth, and of any additional consumption fund needed for a parallel increase in popular well-being, is to be found.

The chief sources of socialist accumulation are thus:

1. *Permanent full employment of existing productive forces*

In the capitalist mode of production, the existing productive forces (mainly, workers and equipment) are periodically subject to considerable under-employment, owing to cyclical economic fluctuations. Leon Henderson estimates at the enormous figure of 300 billion dollars the loss of earnings by the American people during 1930–1940, through the under-employment of men and equipment as compared with the 1929 level.[27] The 1949 recession alone led to a fall in the U.S.A. national product of 16·5 billion dollars, without considering the loss of normal growth, which is equivalent to an additional 7·5–9 billion dollars. The loss suffered by the American people through the recession of 1957–58 and the interruptions of the normal growth-rate during those two years can be put at 50 billion dollars.

In addition, it must be remembered that even during prosperity years the under-employment of men and plant is considerable. A highly-placed American official, Isadore Lubin, has estimated it at 20 per

* A remarkable analysis of several forms of social waste which result from private enterprise has been undertaken by K. William Kapp: "The social costs of private enterprise" (Harvard University Press 1950). Kapp stresses especially those costs which are imposed upon the community as a whole under capitalism, and which would be reduced or even suppressed through a change in the social system, like the consequences of air and water pollution, the waste of natural animal, mineral and energy resources, the multiplication of work accidents and professional diseases, etc.

cent of the plant for the boom year 1929.[28] We have shown elsewhere* the size of the productive capacity left idle in certain branches of industry during the prosperity period 1954–1957. In 1959 the mere existence of an average of 4 million unemployed in the U.S.A. undoubtedly caused the American people to lose the equivalent of an annual product of 16 to 20 billion dollars. In 1955 and 1956, though these were prosperity years, the steel industry worked at only 83 per cent and 80 per cent, respectively of its capacity.

Finally we must mention another way in which existing resources are under-employed: the hoarding (open or concealed) of these resources in the form of excessive stocks, accumulation funds hidden away through the special financial practices of big concerns† etc. In the present state of affairs, full employment of the existing productive forces would undoubtedly increase the five-yearly income of the U.S.A. by 20 per cent, that is, would make possible a doubling of the growth-rate of the economy and at the same time increase to a striking degree the consumption of the lower income-groups.

2. *Elimination of extravagant luxury expenditure*

According to Kuznets, the 5 per cent of American taxpayers who declared the highest incomes (2·5 million persons) received in 1948 18 per cent of the national income, or, in all, nearly 40 billion dollars.[29] Assuming that tax-evasion does not exceed 20 per cent in these groups —an estimate which is lower than the opinion of experts[30]—we arrive at an actual income of 50 billion, or 20,000 dollars per family. Now, the average income of all taxpayers in the U.S.A. in that year was 4,200 dollars. If we take whatever exceeds three times this average expenditure as being superfluous luxury, we arrive at the possibility of saving 22 billion dollars; even if we fix the threshold of waste at *four* times the average income, we still get a recoverable amount of 8 billion dollars. This is merely the degree of wasteful expenditure which is also to be found in the upper middle classes.

The counterpart of this figure is constituted by the goods and services which a socialist nation would regard as superfluous and wasteful. No sensible person can accept as normal a situation in which a nation spends more on betting, gambling or drink than on scientific and medical research, the struggle against cancer, and university education, yet this is the present state of affairs in Britain and the U.S.A.

Abolition of luxury and waste, or obviously harmful forms of expenditure, would by itself be sufficient to make possible a doubling of useful public consumption in the western world, that is, in particular, expenditure on education, health, public transport, conservation of natural resources, etc.

* See Chapter 14, section on "Overcapitalisation".

† See Chapter 14, section on "Self-financing"

3. *Reduction of distribution costs*

The growth in costs of distribution is partly due to technical causes which even a socialist society would not be able to abolish completely. But it also includes an increasingly important element of *selling costs* which are connected with the special nature of present-day capitalist economy, as we have shown in Chapter 6. Intensive rationalisations of the distribution network, cutting out all unnecessary middlemen, placing of selling-points to suit consumers' interests, substantial reduction in advertising expenditure, organisation of storage of goods in accordance with objective principles and not with the chance ups and downs of production and sale for profit—all this ought to make it possible to reduce by half the distribution charges which today make up nearly 50 per cent of the retail price of goods in the U.S.A.

4. *Rational organisation of industry*

The system of private enterprise, even when it operates under conditions of full employment, implies a great deal of wastage. To list only a few aspects of this: the system of private patents and business secrets holds back standardisation and mass production in several spheres, for instance in that of machine-tools (see the study carried out by Professor Seymour Melman on behalf of the O.E.E.C.); the demands of profit hinder the introduction of revolutionary technical innovations so long as plant belonging to the big monopolies has not been fully depreciated;[31] the monopoly system entails irrational investments;[32] the lack of co-ordination and co-operation among all enterprises leads to uneven distribution of technical progress; obsolete equipment continues to be manufactured and even freshly installed when more up-to-date machines are already available; the decline of enterprises and of entire industries takes place in violent jerks and bumps which involve destruction of resources and values; investments are made in accordance with the criterion of the *individual* advantages of each firm and not with that of *overall* benefit to the entire economy.

5. *Freeing of the creative power of the workers*

In capitalist industry the worker feels reduced to the role of an inanimate unit in an extremely complex production process. This same worker, if given some direct or indirect responsibility for the management of his enterprise, would find an outlet for tremendous powers of invention and ingenuity, especially if experience were to teach him that any increase in production and any reduction in the cost of the goods produced would be automatically translated into an increase in his standard of living and that of the local community in which he lived.

Finally, whereas under capitalism a new technique of production is not introduced unless it increases profit, it would be introduced under a planned economy as soon as it offered a saving of living labour at no extra cost.

It is not possible to calculate the total amount of additional resources which a socialist economy would obtain from these five chief sources. They would undoubtedly make it possible to start a cumulative process of accelerated growth which would soon bring these countries to a stage of abundance of consumer goods, perishable, semi-durable and durable alike.

By raising, for example, the annual growth-rate of the economy of Western Europe from an average of 5 per cent to an average of 10 per cent, it would be possible to surpass the present American standard of living within less than ten years. By raising the annual growth-rate of the U.S.A. from 3 per cent to 7 per cent the standard of living in that country could be doubled in less than ten years. Once a number of basic needs had been satisfied, all subsequent increase in resources would be concentrated more and more exclusively on an ever smaller number of needs which were still unsatisfied to a considerable extent. Plenty, and the withering-away of commodity economy, would draw nearer with giant strides.*

Sources of socialist accumulation in the under-developed countries

The task of solving the problems of the transition period in an under-developed country, without substantial aid from the industrially advanced parts of the world, is very much more difficult; it implies dramatic choices such as are illustrated by the history of the U.S.S.R. between 1917 and 1953. True, it is not likely the problem will ever present itself again in the same extreme form, in view of the tremendous pressure which the "third world", swept forward by the colonial revolution, brings to bear nowadays on the industrialised countries, and in view, too, of the existence of non-capitalist industrially-developed countries. Nevertheless, the general setting of the problems of socialist accumulation in the under-developed countries remains to be considered.

Often, in talking about these countries, people speak of a "vicious circle of poverty": because they are poor, the under-developed countries do not possess large funds available for investment; and because they cannot invest more than 5 to 6 per cent of their national income they remain under-developed.[33] Various writers, such as Paul A. Baran, have shown that this reasoning is fallacious.[34] It is based on a confusion between the productive accumulation fund and what Baran calls the "potential surplus" of these countries. In fact, it is a question of the definition of the concept of social surplus-product. Contrary to what some economists allege, the social surplus product in these

* See Chapter 17; "Socialist economy".

countries is a higher, not a lower, proportion of the gross national product than in the industrialised countries. *The poverty of the under-developed 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 Baran, we can list the following slices of the social surplus-product of the under-developed countries which are practically lost to the productive accumulation (investment) fund:

1. The agricultural surplus product taken by the landlords: the bulk of this is spent unproductively (the Egyptian pashas and Iranian aristocrats who live on the Côte d'Azur or spread themselves in all the casinos of Europe) or else hoarded (the enormous hoarding of gold in India).
2. The share of the agricultural surplus product taken by the usurers and traders who live in the country areas. This usually goes into buying land (that is, it merely causes an artificial rise in the price of land and in rents), into an increase in the quantity of usurer's or merchant's capital, which is already excessive, into hoards, or into luxury consumption.
3. The share of the social surplus product which is exported from the country by foreign firms, a very large share in some colonial countries.*
4. The share of the social surplus product taken (and transformed into unproductive consumption) by the *lumpenbourgeoisie* and the state bureaucracy, by way of corruption, crime and debauchery. This may attain dimensions often unsuspected in the West.†

If we take into account that the agricultural surplus product alone amounts in a number of under-developed countries from 30 to 35 per cent of the agricultural product and that the latter often exceeds 50 per cent of the national product, we see what huge and unsuspected reserves would be released by agrarian revolution and the centralisation of part of the agricultural surplus product by the state, for speeding up industrialisation. Bonné declares that ground rent alone has been estimated at 20 per cent of the national income of Egypt.[35]

The foregoing relates only to the national product of an under-developed country which is approaching the period of transition and the task of socialist accumulation. But alongside this actual surplus product there is a huge *potential surplus product* which many under-

* See Chapter 13.

† According to *Le Monde* of 19th March, 1960, under the Batista dictatorship whole quarters of Havana were controlled by the police, the pimps and the lottery organisers, that is, the political "bosses". The "turnover" of this *lumpenbourgeoisie* attained millions of dollars each year. Similar situations exist (or existed) in Saigon, Alexandria, Hong Kong, Rio, etc.

developed countries can mobilise, namely, the potential represented by labour which is idle owing to under-employment in the country-side.*

Professor Ragnar Nurkse was the first to focus attention in a systematic way on this fundamental aspect of the problem. If we acknowledge that the bulk of the rural population in the under-developed countries which are densely populated work only a few days every week, taking the average over a year, then we implicitly admit that an enormous quantity of products and services could be made available to the national community if this population were regularly employed for five or six days a week.[36]

Of course, it is necessary to be careful of over-simplifying the problem. In the first place, a large share of this increased production will take the form of agricultural production, especially in the absence of implements of labour which would make it possible to use this productive power in profitable fashion in small-scale rural industry.† Of this increased agricultural production, a substantial proportion will be consumed by the producers themselves; this will be, in fact, the surest means of raising their standard of living. This increase in peasant consumption is, moreover, a physiological necessity, since the miserable subsistence rations available to the peasants at present make possible only not very productive labour, at a very slow pace.

Furthermore, this mobilisation of millions of peasants for regular work which upsets their ancestral customs demands the presence of a political and/or social force able to mobilise them, which is capable of obtaining this effort from the peasants *willingly*; any attempt to transform this mobilisation into a *system of forced labour* would quickly lead to a fall in output and would be felt on a large scale as a waste of resources, from the standpoint of economic growth.‡

Finally, the possibilities of increasing agricultural production are not infinite (a limited cultivable area; a limited amount of implements, fertilizer, etc.; availability; impossibility of revolutionising technique

* See Chapter 13.

† Professor Bonné shows that one hectare of irrigated land requires five times more work than one hectare of non-irrigated land. In the irrigated areas of India the peasants are kept busy for 280 days in the year, on the average, as against only 114-118 days in the non-irrigated areas. In China, before the "commune" movement, the situation was the same.[37] As the bulk of the arable land is not yet irrigated in India or China—55 per cent in China, 85 per cent in India—the possibilities of increasing production and raising the standard of living are thus considerable in these countries.

‡ Professor Nurkse is willing to recognise the physiological need to feed workers better than unemployed persons. Nevertheless he remains preoccupied by the problem of avoiding "leakage" from the accumulation fund into consumption by the producers.[38] He does not seem to grasp the obvious link between increased consumption and increased productivity of labour.

without new implements, etc.). Therefore, the full employment of the rural masses may imply the need to mobilise these masses to some extent to carry out "infrastructural" works (roads, canals, railways), house building, and even primitive industrial work, if the equipment for its employment in modern industry is lacking.

It is in the last-mentioned eventuality that the voluntary and enthusiastic nature of this mobilisation will be the hardest to preserve, as the example of the Chinese communes has shown. The solution of the problem lies in the carrying-out first of all of works which make possible an immediate raising of the standard of living of the rural communities themselves, for example, the building of peasants' houses, of schools, infirmaries and hospitals, etc. An extensive, though often fragmentary, body of experience, is beginning to be accumulated in this sphere, in China, in ex-French Guinea and especially in Cuba.[39]

The normalisation of the working period in the countryside as an instrument of economic growth is subordinate to a social revolution in agriculture. Without such a revolution, the mobilisation of the peasants must inevitably resemble forced labour. Moreover, the existence of a class of landlords enables the latter to take a large share of the new social surplus product and divert it from the potential fund of primitive accumulation into their own unproductive consumption fund. Only in Equatorial Africa, wherever private ownership of land is lacking, is this agrarian revolution not necessary. What is needed there, on the other hand, is a social revolution to free the tribal communities from control by exploiting chiefs who are more or less integrated into capitalist economy.

Maximum and optimum rates of accumulation

We now come to the key problem of the transition period: determining the optimum growth-rate. This problem has to be looked at in both its economic and its social aspect. Examination will show, moreover, that, in contrast to what is usually supposed, these two ways of considering the problem do not lead to opposite conclusions.

Countless writers have repeated that the low standard of living of the Soviet people during the phase of rapid industrialisation was "inevitable" if it was desired to accelerate this process. Others have even made the generalisation that no substantial increase in a country's growth-rate is possible except by reducing its standard of living.[40] We have already alluded more than once to simplistic conclusions of the same type. They always spring from the same source: a mistaken notion of how the national product (the national income) is shared out, whether in capitalist society or in a society in transition from capitalism to socialism.

Prevailing opinion divides this income into two parts: the current consumption fund and the accumulation fund.* The latter cannot increase without reducing the former. Now, the accumulation fund makes it possible to increase future consumption. Thus, it is claimed, the producers in the transition epoch would inevitably be obliged to choose between immediately increased consumption and quicker economic growth (increased consumption in the future). The higher the rate of growth, the bigger the sacrifices that must be imposed on the consumers.

This reasoning is faulty on two counts. First, it is incorrect to divide current income into only two parts: consumption by the producers, and the accumulation fund needed to ensure economic growth. And it is only if this is in fact the way the national income is composed that any increase in the second element necessarily implies a reduction in the first. In reality, current product is divided three ways: the producers' consumption fund, the productive investment (productive accumulation) fund, and that part of the social surplus product which is consumed unproductively. A reduction in this third element makes it possible to increase *simultaneously* both the first and the second.†

* This mistake has been encouraged by a false interpretation of certain of Keynes's formulae. Keynes defines the national income as the sum of consumption and saving. He then puts the sign of equality between saving and investment. But he makes quite clear that, in this sense, "saving"="investment"="everything that is not currently consumed".[41] Any conclusion drawn from this tautology regarding the ratio between consumption by the *producers* and *productive investment* is of course, misconceived. It is needless to add that with the *capitalist* régime an increase in the rate of profit expected (and so a reduction in the *relative share* of the national income obtained by the workers) is often a condition for any considerable increase in investment. But this is precisely one of the main reasons for *condemning* the capitalist mode of production!

† In his book on *Theoretical and Practical Problems of Planning*, Charles Bettelheim explicitly mentions these possibilities, without perceiving their whole social significance. "Two solutions only make it possible, in the event of an increase in the working population, to maintain both full employment and the same formulae of production: either, at the start, the reduction of wages to a definite proportion of the value produced, or the financing of this extension by reducing unproductive expenditure."[42] In his subsequent works he increasingly loses sight of this problem.

It must be pointed out, too, that in 1926–7 the United Left Opposition in the Russian Communist Party (the Trotsky-Zinoviev tendency) proposed increasing *simultaneously* the amount paid in wages and the rate of industrialisation (the amount devoted to productive investment), through a strict cutting-down in administrative expenses and other unproductive forms of expenditure, together with reductions in the resources of the well-to-do classes, to the extent of a billion gold roubles a year.

The Soviet economists who, in that period, were determining the models for the development of the U.S.S.R's economy were not at all unaware of the impact which an excessive rate of accumulation would have on the productivity of labour. The economist N. A. Kovalevsky explicitly referred to it. Later, however, this factor came to be completely overlooked in the writings of the Stalin era.[43]

Marxist writers have been led into the same error through applying, in a mechanical way, the reproduction formulae drawn up by Marx for problems of growth in a society in transition from capitalism to socialism. This has led to many ambiguities, both theoretical and practical.

Thus, in capitalist society in its "pure" form, *V* represents merely the wages of the productive workers, and *S* represents surplus value, in the widest sense of the expression. To determine, however, actual consumption by the workers, on the one hand, and the actual amount of the investment fund on the other, it is not enough to subtract from the net product the total amount paid in wages in the literal sense, and then compare it with what is left over. We must take into account collective consumption by the workers (free services or subsidies in respect of health, education, housing, etc.), which forms an integral part of the productive consumption fund; we must also take into account all the expenditure on unproductive consumption and unproductive investment (administration, armed forces, consumption by the privileged strata, etc.).

The true starting formula needed to determine the respective shares of producers' consumption and of the investment fund is to be deduced from an analysis of the gross product in the following terms:

(a) Fund for renewal of productive fixed capital.
(b) Productive consumption fund: wages and salaries of the producers and their families (including pensioners, sick, etc.), plus collective consumption which raises the standard of living, plus replacement of producers' 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 (stocks, etc.).
(e) Potential investment fund: what is left of the gross product after deduction of a+b+c+d.

Soviet writers still decline to make this elementary distinction between the productive consumption fund and the unproductive consumption fund. Thus, A. D. Allakhverdian wrote in 1951: "The consumption fund is made up of receipts directly devoted to individual consumption by the working people of socialist society and to satisfying their social needs . . . It also includes the greater part [?] of the expenditure devoted to the needs of defence and security."[44]

And M. Bor says the same thing in 1954: "The consumption fund must satisfy *(a)* those needs of the population which are covered by individual incomes, *(b)* the needs of the members of the armed forces, and *(c)* the material expenditure involved in the maintenance and working of the unproductive sector (including expenditure resulting from the wear and tear of houses and other elements of unproductive equipment)."[45]

We here observe, let us mention in passing, a curious departure from the labour theory of value, and a borrowing from marginalist notions, which we will look at more closely in Chapter 18, when we study Soviet theory regarding wages and salaries. Armed forces are doubtless indispensable to the U.S.S.R., just as the work done by doctors is doubtless socially useful. Neither the former nor the latter, however, produce value . . .

The view according to which any increase in the investment fund automatically implies a reduction in the producers' consumption fund is furthermore erroneous because it treats the rate of economic growth and this producers' consumption as though they were two factors independent of each other. In reality, the poorer a country is, and the lower the standard of living of its producers, *the more the rate of economic growth is a function of the producers' consumption.* Any reduction in the producers' standard of living entails a relative decline in the productivity of labour, which partly offsets the positive results of the increase in the stock of capital goods.*

Schematically, we could set out the following formula, in which *P* represents the annual product, *K* the available stock of capital, and *O* the average output of labour: †

$$P_1 = C_1 + V_1 + S_1 = K_1 \times O_1$$

* Joan Robinson admits this only as regards the "physiological subsistence level". If real wages fall below this level, "efficiency is impaired", and the output of labour falls.[46] Other writers, however, speak of "mixed consumer goods", consumption of which increases production. Thus, Carl S. Shoup estimates that any increase in production which results from an improvement in wages paid to the producers shows that a share of consumer goods come into this category. This case is a general one, except in the richest countries; and even that exception is perhaps not justified. Steindl claims that any reduction of real wages below a certain level leads to a fall in the productivity of labour. It is odd that the Soviet writers who constantly underline the importance of the "producer's material incentive" for increasing production at the *micro-economic* level stubbornly refuse to take the same factor into account at the *macro-economic* level. Recently, however, some Yugoslav economists have recognised its importance.[47]

† The concept of "output of labour" is one of the constituents of what the Indian Professor Mahalanobis called the "income coefficient of an investment". It is thus also one of the constituents of the "investment yield", a term used by Ch. Bettelheim.[48] This yield depends both on the intrinsic efficiency of the investment and on the output of labour, that is, the way in which living labour realises (utilises) this theoretical, potential efficiency. Bettelheim examines this problem only from the standpoint of the technical skill of the workers,[49] and not at all from that of their application to their work as a function of their level of consumption. It is the reciprocal of what academic political economy calls the capital coefficient.

"*S* accumulated in *C*", the part of the social surplus product which is accumulated in the form of machinery, etc., is added to K_1 so as to provide the new stock of capital available in the course of the following year:

$$K_1 + S \text{ acc. in } C = K_1 + \Delta K = K_2$$

which will give an annual product:

$$K_2 \times O_2 = C_2 + V_2 + S_2 = P_2$$

But if V_2 is smaller than V_1, O_2 will be smaller than O_1. Consequently, $K_2 \times O_2$, while greater than $K_1 \times O_1$, will be smaller than $K_2 \times 0_1$, that is, the advantage resulting from the increase in productive investment will be to some extent offset by the lowering of the productive output of the workers.

It follows logically from this that there is an ideal value of K, K^1, higher than K_1, but lower than K_2, which will make it possible to attain the maximum product P^m, thanks to an increased productive effort by the workers which results from an improvement in their standard of living:

$$K^1 \times O^1 = P^m, O^1 \text{ being higher than both } 0_2 \text{ and } O_1.$$

Now, O^1 presupposes a level of wages V^1, higher than V_1. The ideal division of P_1 will thus be one which makes it possible to increase K_1 in such a way as to achieve simultaneously the growth of V_1, from which O^1 will result.

Let us suppose that a country possesses a stock of fixed capital of 100 billions, which makes possible the production of an annual income of 35 billions, of which 25 billions would be consumed by the producers. If, in order to bring up the stock from 100 to 150 billion, the annual productive investment is increased from 5 to 10 billion, by reducing consumption by the producers for, say, five years, from 25 to 20 billion, then it is probable that at the end of this five-year period the 150-billion stock of capital will give not an income of 50 billion but rather one of 45 billion. The investment "pays" less than was expected, because output is less than was expected.

And we can now bring together the two parts of the argument. *A decline (or an excessively prolonged stagnation) in real consumption by the producers has a twofold negative effect on the rate of economic growth.* On the one hand it causes relative under-employment of new equipment, an average productivity of labour considerably lower than was expected. On the other, it gives rise to phenomena of indiscipline and large-scale fluctuation in the labour-force, if not to strikes, sabotage, etc. In order to neutralise to some extent the consequences of this revolt by the producers against their too low standard of living, the leaders of the economy will have to increase the element of coercion, whether direct (police) or indirect (supervisors, foremen and checkers of all kinds), to which the producers are subjected. But an increase in this coercion implies a diversion of resources and men from productive to unproductive purposes, with the unproductive consumption fund growing. An excessive rate of accumulation which lowers the standard of living of the producers thus leads to a growth-rate which is less than the optimum, both because of the reduced productive effort of the workers and because of the wastage of an increasing proportion of the social surplus product for unproductive purposes. *The maximum rate of accumulation is never the optimum rate,* that is, it never makes possible the most rapid growth of the economy.

The optimum rate of accumulation, the one that makes possible the quickest growth, taking into account all the above-mentioned factors, cannot obviously be determined except through a series of experiments, successive approximations and broadly democratic discussions. Indeed, the workers' reactions to different variations in their standard of living are not given once for all time. On the contrary, they are an extremely variable element, which depends on historical factors (the past and present standard of living), psychological factors (the hopes and disappointments of the masses), political factors (their relative confidence in the leadership of the country) and social factors (the extent to which they effectively participate in the management of the economy and of the separate enterprises). These reactions may even vary within a single country from period to period, according to circumstances.

In a country like the U.S.A. the marginal growth of the workers' productive effort depends less on an increase in wages than on a change in the hierarchical structure of the enterprise and in the producers' feeling of being "masters in the house". In a country like India, or Indonesia, however, the elasticity of this effort in relation to the standard of living will be considerable.

The experience of the U.S.S.R. during the First Five-Year Plan affords a striking example of this proposition. In order to achieve the aims of the First Five-Year Plan, an increase in wage-labour force from 11·3 million to 14·8 or 15·8 million workers had been envisaged. In reality, this force had to be increased to 22·9 million, that is, *the number of workers hired had to be twice what had been envisaged,* in order to arrive at the results of 1932.[50] Even so, the aims of the First Five-Year Plan were not realised in most branches of industry,[51] and this despite the fact that employment in industry alone exceeded by 50 per cent the figure envisaged by the plan (6·3 million as against 4·1 million). The conclusion is self-evident: the *actual productivity of labour was over 35 per cent less than what had been envisaged,* P_2 was less than 65 per cent of P_1.*

* Professor Kalecki[52] makes the rate of growth depend directly on the rate of investment, even though he allows for a coefficient $\frac{1}{m}$ which he calls the "productive effect of investment", comparable to Bettelheim's "investment yield"

Note on the "law of priority in the development of the capital goods sector".

The theory by which "the capital goods sector must increase more quickly than the consumer goods sector", in order to ensure a high growth-rate in the economy, is based on a crude confusion. From the reproduction diagrams in Marx it merely follows that the *absolute amount* accumulated in department I must be higher than the *absolute amount* accumulated in department II in order to ensure expanded reproduction, but not at all that the *rate* of accumulation has to be higher in department I than in department II.

Maurice Dobb, who has endeavoured to justify mathematically the official Soviet doctrine on this point, has merely shown that if the growth rate of I is not higher than that of II, the *rate* of growth of II will not be able to *increase* in the long run.[54] But the *future* increase of this *rate* is neither a necessity nor a consolation for a too exiguous rate in the present. A harmonious increase in the two departments, with a practically equal rate in both, is as possible as it is often economically desirable.

Following several other writers, Ch. Bettelheim shows that the larger the proportion of total investments devoted to department I, the larger the *future* growth in the national income compared with the present growth.[55] But the converse is also true: the more investment is directed exclusively into I, the more it relates to long-term projects, and the slower will be the *immediate* growth of the national income. This obviously cannot be the ideal situation, to stagnate for thirty years in the hope that, later on, one will get shaved for nothing. It is odd that Bettelheim here forgets what he had nevertheless grasped at the outset of his work:

> "These transformations cannot take place at the speed desired, despite the interests opposed to them, unless the State's activity really takes this direction and unless this activity is powerfully backed by the social forces which are to benefit from economic development. In its turn, this backing will not be given, with the necessary power, *unless those who are to benefit from economic development appreciate from the start that the economic policy being applied involves real advantages for them*" . . .[56]

Paul A. Baran acknowledges that there is a correlation between the

and like that concept, the reciprocal of the capital coefficient. But the value of $\frac{1}{m}$ depends exclusively on the nature of the technical progress, that is, on the fact that it either saves capital or it absorbs more capital; Kalecki does not seem to take into account at all the impact of the level of consumption of the producers on their productive effort, and thereby, on the productive effect of an investment. This allows him to state that the more consumption declines, the more income can increase, the only obstacle being . . . the shortage [!] of labour-power.[53]

rate of accumulation, the level of consumption and "the ability and willingness to work on the part of the population".[57] But he overlooks entirely the problem of the proportion of the surplus-product which is unproductively consumed (or accumulated), and he gives a mistaken interpretation of what has happened in the U.S.S.R., declaring that by 1937 [!] the food problem had been "solved" in the U.S.S.R. and that the production of consumer goods thenceforth achieved an adequate growth.[58] Soviet leaders, including Khrushchev himself, have contradicted this prettified interpretation of the facts and confirmed the analysis we have developed above.

For several years now Soviet writers have even been declaring that "priority in the development of department I (capital goods) as compared with department II (consumer goods) is a law of socialist expanded reproduction".[59]*

This conception includes several erroneous extrapolations of the Marxist theory (and formulae) of *capitalist* expanded reproduction, to make these applicable to the expanded reproduction of a transitional society, and *a fortiori* to a socialist society.

Let us recall first of all that the formulae of capitalist expanded reproduction† do not reflect relations between *quantities of products* but relations of *value*. The fact that department II increases in this case more slowly than department I corresponds above all to the increase in the organic composition of capital. The newly-produced value tends to be distributed in such a way that variable capital (wages) occupies a smaller place than in the division of the social product in the previous cycle. And as, *under the capitalist régime*, growth in the productivity of labour is justified only on condition that "wage costs" are reduced, running parallel to this "increase in the organic composition of capital" is a slower growth of department II than of department I.

One can, however, perfectly well imagine a planned economy developing with a growth-rate of producers' consumption equal to the general growth-rate of the economy (that is, *without increasing the rate* of investment). Expanded reproduction would be quite well ensured under these conditions, as is shown, for example, in the following reproduction diagrams:

$$\text{1st cycle} \quad \left\{ \begin{array}{l} \text{I} : 4{,}000c + 2{,}000v + 2{,}000s = \ 8{,}000 \\ \text{II} : 2{,}400c + 1{,}200v + 1{,}200s = \ 4{,}800 \end{array} \right\} \ 12{,}800$$

* Maurice Dobb has not felt able to confirm this absolute affirmation; he has contented himself with declaring that there are three necessary successive phases: one during which department I grows faster than department II; a second during which growth-rates are the same in the two departments; and a third, in which the growth-rate of department II exceeds that of department I.[60]

† See Chapter 10.

$$\text{2nd cycle} \left\{ \begin{array}{l} \text{I}: 5{,}000c + 2{,}500v + 2{,}500s = 10{,}000 \\ \text{II}: 3{,}000c + 1{,}500v + 1{,}500s = 6{,}000 \end{array} \right\} 16{,}000$$

$$\text{3rd cycle} \left\{ \begin{array}{l} \text{I}: 6{,}250c + 3{,}125v + 3{,}125s = 12{,}500 \\ \text{II}: 3{,}750c + 1{,}875v + 1{,}875s = 7{,}500 \end{array} \right\} 20{,}000$$

$$\text{4th cycle} \left\{ \begin{array}{l} \text{I}: 7{,}815{\cdot}5c + 3{,}906{\cdot}25v + 3{,}906{\cdot}25s = 15{,}625 \\ \text{II}: 4{,}687{\cdot}5c + 2{,}343{\cdot}75v + 2{,}343{\cdot}75s = 9{,}375 \end{array} \right\} 25{,}000$$

etc.

From one cycle to the next—one might envisage two-year or three-year cycles, to give an appearance of realism—the social product, the product of each of these two departments, the incomes and consumption of the producers, rise in the same proportion, namely, 25 per cent. At the same time, *expanded* reproduction is ensured because in *absolute* value the volume (of the value) of department I has increased more than the volume (of the value) of department II. Between the first cycle and the fourth, the production of department I has increased by 7,625, and that of department II by only 4,575. With an equal growth-rate in both departments, the quantity of instruments of labour, of equipment, put at society's disposal, has increased in absolute terms so as to ensure a steady growth in social production.

Kronrod and other Soviet writers object that under these conditions the social productivity of labour ceases to grow.* But in a socialised and planned economy the growth in the "organic composition of capital" (the expression is, of course, out of place!) that is, *the reduction of the share of the social product going to wages*, is not at all a necessary condition for growth of the social productivity of labour. The latter may result from the fact that thanks to the absolute growth of department I, the number of hours of labour needed to produce the social product declines, relatively or even absolutely. This increase in the productivity of labour would have been perfectly well realised if, in the successive cycles of our example, the hours of labour put in had evolved as follows:

1st cycle: 12,800 produced by 128 billion hours of labour
2nd cycle: 16,000 produced by 140 billion hours of labour
3rd cycle: 20,000 produced by 150 billion hours of labour
4th cycle: 25,000 produced by 160 billion hours of labour

This would imply an increase in productivity successively by 13·5 per cent, 18 per cent and 17·2 per cent.

* "It is clear [?] that priority for the development of heavy industry has been, still is and will remain the basis of the development of Soviet economy, and that priority in development of the production of the means of production is one of the laws of socialist economy, because this condition can alone guarantee that expanded reproduction takes place on the basis of growth in the productivity of labour."[61]

Increased productivity of labour may also manifest itself simply in the fact that from one cycle to the next the *quantity* produced increases more quickly than the *value*. If, to simplify matters the production of department I be reduced to production of steel and that of department II to production of textile goods, there will be an increase in productivity when, in our example, production in quantitative terms evolves like this:

		million tons of steel	*tons of textiles*
1st cycle:	8,000I + 4,800II =	4	+ 100,000
2nd cycle:	10,000I + 6,000II =	5·5	+ 130,000
3rd cycle:	12,500I + 7,500II =	7·5	+ 170,000
4th cycle:	15,625I + 9,375II =	9·5	+ 220,000
			etc.

One must always keep in mind that the productivity of labour is in the last analysis a matter of quantities of *products* created by *hours of labour*, and not necessarily of *values* with different "organic compositions".*

All the foregoing assumes, of course, a certain initial ratio in the division of capital goods between the two departments, a certain ratio between stock of capital and current production, etc. If these ratios are not satisfactory at the start, it may be inevitable that department I should develop at a faster rate than department II. This, however, is a question of a particular situation, not of a "general law of socialist expanded reproduction".†

* Kronrod himself seems to sense the gap in his argument when he says: "Each unit produced is created with an expenditure of labour, both living and congealed, which is being reduced all the time, but, on the scale of social production, its creation, like the production of the continuously growing *amount* of total product, requires the application, in the last analysis, of a relatively ever-increasing *amount* of means of production. This in turn implies that the production of department I increases faster than that of department II, not only [!] as regards value but also as regards physical volume."[62] A moment's reflection will show that this conclusion does not follow at all. *A single* machine can nowadays produce ten times the amount of newsprint that could be produced twenty years ago. The *amount* of means of production does not in the least have to increase faster than the *amount* of consumer goods produced. Indeed, it often increases much more slowly, and this happens precisely during phases of technological revolution!

† "Once producer-goods capacity is sufficient to supply the replacement needs of the consumer-goods industries and the normal additional needs imposed by the prescribed rate of growth, there is nothing to stop the two departments of the economy from expanding in step with one another at a constant rate, given constancy of capital/output ratios, which is always assumed by Soviet economists in their theoretical writings. What the rate is will, of course, depend on the ratio between the stocks of capital ('basic funds' in Soviet terminology) in the two sectors."[63]

The economic function of socialist democracy

We have just been considering the problem of the optimum rate of accumulation from the economic standpoint; now we must look at it from the social angle. While it is wrong to claim that any increase in the accumulation fund of an under-developed country can result only from an *absolute* lowering of producers' consumption, it is true that any increase in this fund represents a *relative* surrender of current consumption on the part of the workers; the resources used to make machines might have been used to produce consumer goods. It is specific to capitalist production that the investment decisions are taken behind the backs of the workers and the mass of the people. The fixing of the rate of investment, and of the real volume of their own consumption, which to a large extent results from this, takes place in a way totally independent of their will. Contrary to what is alleged by the neo-classical economists, investment is indeed a sacrifice of consumption, but it is not the capitalists but the producers who make the sacrifice. It is imposed upon the latter by the mechanism of market economy, the capitalist "rules of the game".

In an economy which is planned in a bureaucratic and centralised fashion, it is the central authorities ("some organ of central government", as Dobb[64] puts it) who arbitrarily decide the rate of investment which determines the amount of real consumption by the masses. Once again, sacrifices are imposed without the victims being asked their views and without obtaining their *prior consent*. Such a system of management is contrary to the principles of socialism; and, furthermore, it leads to economic results which are inferior to those of a more democratic system of management. It entrusts controlling power over the social surplus product exclusively to the central political, economic and military administration. It thereby gives this central administration the power to dominate and subordinate the whole of society. What the Soviet Communist Party nowadays calls, in hardly Marxist terms, "excess in the personality cult", is merely the ultimate culmination of this sort of arbitrary power of the bureaucracy over the economy and the whole of society.

Inevitably, in conditions where shortage of goods still prevails to a marked degree, such a concentration of the social surplus product in the hands of a central administration implies the conferring of substantial privileges on its members: "Thus while the decision between consumption and investment out of the deducted surplus value is the crucial one for the rate of development of an economy, it remains true that whoever makes the decision would be in a *privileged consumption-position* whatever be the direction of his decision. This position of being the *privileged* consumer follows directly from the strategic role that the persons who make the decision occupy in an economy."[65]

The revolution effected by socialism in the economic and social structure implies that decisions aiming at the devotion of part of the resources available for potential current consumption to the development of the productive forces must be taken by the mass of those concerned, in person. In contrast both to capitalism and to bureaucratic planning, these sacrifices thereby become *freely-agreed sacrifices*.

This may in some cases mean a growth rate lower than the optimum, though this is not at all certain.* But even in such cases, the mistake made is most educative, and will not soon be repeated. Only in a system of bureaucratic planning, exempt from all public discussion and frank criticism, could such crying mistakes of economic policy as were committed in the agricultural sphere in the U.S.S.R. between 1928 and 1953 be persisted in for twenty-five years, without being corrected.

Experience has thus already settled the question. On the average and in the long run, socialist democracy makes possible not only more harmonious but also faster growth of the economy than bureaucratic planning.

Planned economy and market economy

The necessity of a transition period follows precisely from the fact that on the morrow of the abolition of capitalism, *society is still living in a situation of relative shortage of consumer goods*. The allocation of consumer goods during the epoch of transition from capitalism to socialism must therefore be effected essentially through exchange, that is, through buying and selling.† Consumer goods continue to be commodities. Leaving aside the social wage, the labour force is essentially paid in money. A huge monetary sector therefore continues to exist in the economy.

Some writers have seen in this survival of money and commodity economy in the U.S.S.R. the prime source and cause of its bureaucratisation. This is, for instance, the view taken by A. Pannekoek and by

* In *Principles of Human Relations*, Norman Maier shows that the working out of decisions by group discussions is both possible and effective, that it makes possible the fixing of realistic aims, and that the results are usually better than those obtained by the authoritarian method. It is of little significance that Maier's study is concerned with helping capitalism to function better, not to get rid of it. What he shows tells against his purpose, since the same considerations argue in favour of the abolition of the "closed areas" of management decision reserved to the bosses.[66]

† Cf. Engels: ". . . the 'working people' remain the collective owners of the houses, factories and instruments of labour and would hardly permit their use, at least in a transitional period, by individuals or associations, without compensation for the cost. Just as the abolition of property in land is not the abolition of ground rent but its transfer, although in a modified form, to society. The actual seizure of all the instruments of labour by the working people therefore does not at all exclude the retention of the rent relations."[67]

Bordiga,* who argue strongly for abolition of money as soon as the means of production are socialised.[68] This idea mixes up cause and effect. N. Bukharin's views[69] were very close to this ultimatist idea and to some extent fathered it.

The survival of money economy and market economy is a consequence, not a cause of the relative shortage of consumer goods. The distortion or degeneration of the state and the economy on bureaucratic lines results in the last analysis from the same inadequacies in the degree of development of the productive forces. By abolishing money economy and market economy one abolishes only the barometer, not the frost itself. The "certificates" or "labour-tokens" which would take the place of money would merely be ration-cards—and, like ration-cards, these "tokens" would soon start circulating, even if the law were to forbid it.

Consumers' tastes and needs are different. One man would willingly surrender his milk ration in return for an extra ration of tobacco; a mother would give up her meat ration to get a double ration of milk for her children. This circulation of the "tokens" would be stimulated by speculation, which inevitably arises in a situation of shortage. Soon, as on the Continent of Europe during the Second World War, a "cigarette standard" or a "bread standard" would come into being, in place of the accursed "gold standard" or "paper money"; in a richer society, it might be an "electric-light-bulb standard". As the use of such media is clumsier, less flexible and more complicated than that of bank notes, the ordinary worker would find himself a good deal worse off than in the days of the barometer. Especially would he find that he was being more easily cheated by traders.

The existence of a market for consumer goods is nowadays generally accepted as a lesser evil for the transition period.† But what does it imply where capital goods are concerned? How will the prices of these goods be fixed? How will economic planning fit in with commodity production and market economy?

In the history of socialist ideas this question has been answered in two diametrically opposite ways. One has confined itself to the sphere of theory, while the other triumphed in practice for 25 years. The first answer was that given by Professors Taylor, Oskar Lange, Hall, Lerner, Dickinson, etc., set out most clearly by Lange in his work *On The Economic Theory of Socialism*, and expounded in 1956 by the Polish Professor W. Brus.[71] The second answer was given by the practice of

* In other parts of his pamphlet, Bordiga nevertheless recognises the necessity of a survival of market economy during the transition period, but only until the time when "society controls [?] all its products".

† Marxist writers so different as Kautsky, Lenin, Vandervelde, Trotsky, Stalin and Otto Bauer have accepted this necessity.[70]

Soviet planning in the Stalin epoch and the doctrine which inspired it (or tried to justify it).

Taylor, followed by Lange and the other writers mentioned above, started out from the "supreme" objection to socialism formulated by the neoclassical economists of the marginalist school, namely, that it would be "impracticable" because it would make impossible any economic calculation which presupposed a market. At the beginning of this century, however, such economists as Pareto and Barrone showed the fallacy of this view.[72] The marginalists then prudently withdrew to a second line of defence: economic calculation would be possible under socialism, in theory, but not in practice, because it would imply the simultaneous solving of "millions of equations".*

Taylor and Lange reply to this objection that it arises from a confusion regarding the nature of prices. It is true that the formation of prices results, on the market, from "decisions" made independently by thousands of consumers and producers, they say. But, in practice, every consumer and every producer behaves at any given moment as though the prices confronting him were immutable data (except in a few places, such as the Stock Exchange, where permanent and universal haggling goes on). This is what Lange calls the *parametric function of prices*.[73] The latter end by changing only as the ultimate result of thousands of reactions dictated by the given prices.

Now, Taylor and Lange go on, there is nothing to stop the planning organs from working in exactly the same way. They would start from historically-given prices. These would have to be treated as immutable data by the heads of enterprises and by the consumers. If these prices were not "real" (if they did not correspond to "marginal value" as these writers put it, or to a "price of production", as we should say), phenomena either of shortage or of over-production would appear; these would encourage increased production of the goods whose prices were in excess of "marginal costs" and reduced production of those whose prices were below these costs, and so lead to price-reductions in the former instance and price-increases in the latter.[74] After a few adjustments, equilibrium prices would be established, just as happens on the capitalist market.†

This solution, which implies the use of pseudo-competitive procedures, is ingenious and harmonious, but it suffers from several serious weaknesses.

The successive and continual adjustments—as productive processes change, as well as consumers' demands, the "equilibrium prices"

* Today, in the age of electronic computers which carry out thousands of operations *per minute*, this objection makes us smile.

† More precisely, as happens under petty commodity production. In a capitalist economy, it is fluctuations in profits and capital that determine the formation of prices.

would be altering all the time—would always be made *after the event*, which would mean considerable waste and losses. When the prices of perishable goods had been fixed at too high a level, the goods would have perished before the price-changes had been carried out. When the prices of raw materials had been fixed at too low a level, they would have been wasted in the manufacture of certain goods; these prices would not be raised until the mistake had been perceived.

Actually, a system of prices like this, guided by the market, would reproduce a number of negative features of capitalist economy. In a comparatively under-developed country, all investment plans which demand a lot of machinery would be systematically held back in favour of projects requiring plenty of labour and little machinery, because the latter would be "too expensive". The rate of economic growth would be nearer that of a capitalist economy than that of the U.S.S.R. and other countries with a socialised economy.

Furthermore, the investment decisions taken by enterprises, and calculations of the volume of productive capacity currently being used, would suffer from the same lack of information, and would tend to give rise to the same cumulative movements as are characteristic of the decisions taken by capitalist businessmen.[75]

Planning implies a *choice* between various possibilities, a choice of priorities. The fixing of "equilibrium prices" is only a means, not an end. The achievement of certain high-priority aims—chosen not arbitrarily but with the consent of the majority of the working people—may make necessary the abandonment of certain "equilibrium prices" or certain market mechanisms. The existence of a mass of unemployed in an under-developed area of a large country may be seen as a factor of social waste and misery graver than the "sale" of certain goods "below" or "above" their real prices. It may happen that the "market mechanisms" (reduced rates of interest, subsidies, etc.) will not be adequate to attract enterprises into this area. In that case it would be preferable to determine the location of enterprises or to fix a volume of investment through central decision and to subsidise the work thus undertaken. But without autonomy of decision by enterprises in the sphere of investment there is no true market of *capital goods*. And without such a "market" there is no "spontaneous" formation of prices for these goods. In fact, imperative planning and the socialisation of the means of production restrict very much this autonomy of decision by enterprises so far as the total amount and the general direction of investments are concerned.

The whole superiority of planned economy as compared with capitalist economy lies precisely in the fact that it substitutes the concept of the maximum overall efficiency of investment by the community for the concept of maximum profitability of each separate enterprise.[76] The former concept, while making possible a higher growth-rate than the latter, does not necessarily imply a sum of profitabilities of which *each one* is higher than under the latter concept; it may indeed imply a lower degree of profitability, and even work at a loss, in certain enterprises.

What survives from Taylor and Lange's argument is the necessity for the planning authorities to draw up regularly *tables of real costs of production* (averages, and also costs in particular enterprises), following the procedure these writers suggest. But the lists of current prices of capital goods (which are imposed on the enterprises, and from which follow the prices of consumer goods to be paid by consumers) may vary momentarily, or in the case of certain goods, from these tables, if such variations are unavoidable in order to realise certain aims of the plan.

If Taylor and Lange err through "doctrinaire" exaggeration in the matter, the practice of Soviet prices in the Stalin era certainly erred in the opposite sense, through a crude pragmatism which made the entire price-structure obscure and led to the worst absurdities. At the start, the Soviet authorities fixed "real prices" to which they added, at rates varying according to the particular goods, a "turnover tax"—or from which they deducted a "subsidy". The former provided the financial resources for accumulation, at the expense of the consumers, while the latter encouraged the use of production methods with a high intensity of capital.

As a result, however, of currency inflation, of the upheaval in agriculture, of successive and arbitrary alterations in prices, the central authorities themselves lost sight of the relation between the "directive prices" laid down by Gosplan and the real costs of production. Serious distortions appeared, especially in the agricultural sphere, and made practically impossible the calculation of the relative profitability of different investment projects. These distortions inflicted considerable losses on Soviet economy.*

The rational relation between plan and market has to be placed half-way between these two extremes. The plan must make full use of the market, without ever yielding passively to it. It must if it can, guide the market by means of incentives; it must, if need be, coerce the market by means of injunctions, every time that this is required for the realisation of its priority aims, as freely decided by the working people.

Certain theoreticians claim that, because they leave consumers and enterprises the illusion of freedom of choice, incentives are always preferable to injunctions. This argument sometimes has dubious psychological value. Does the consumer really react differently to a sudden price-increase of 100 per cent and to the re-establishment of

* We quote some examples in Chapter 15.

rationing for the product concerned? This argument implies, moreover, an inacceptable surrender of the criterion of efficiency and social interest. Whenever the use of incentives would delay the solution of an important economic or social problem and thereby reduce the well-being of the masses, there must be no hesitation in the use of injunctions. It is well appreciated that the efficiency of such injunctions, both as regards distribution of labour and as regards private consumption, is very much open to doubt. In this sphere, abuse of such methods risks bringing the planner to the brink of "civil mobilisation" and forced labour, methods which are incompatible with socialist democracy and planning based on consent by the majority of the working people.

Planning techniques

The transition period is above all the period of *planned growth.* We must now define the methods of planning and the general economic problems to which this growth gives rise.

Planning is a technique for co-ordinating economic activities in order to achieve certain priority aims. Socialist planning pursues the aim of increasing the socialised productive forces so as to ensure an increasing abundance of goods and services for the citizens, to ensure thereby the all-round development of their personalities, and to bring about, as a long-term prospect, the withering-away of market economy, classes, social inequality, the state, and the division of labour. Socialist planning presents problems on different planes: that of the economy as a whole; that of the various branches of industry (and sectors of consumption); and that of particular enterprises and households.

The key problem of planning is the allocation of existing resources so as to ensure the desired rate of growth, in order to attain the aims which have been selected as having priority. Intrinsic (objective) variables can be chosen: either the volume of employment, or the volume of production, the volume of consumption, the increase in the kind of production desired, or several of these factors taken together.

In an economy subject to chronic unemployment or under-employment, the rate of growth of the necessary production can be worked out on the basis of an average increase in productivity taken as already given. If the latter increases by 3 per cent per year, if the occupied population increases by 1 per cent, if 20 per cent of the occupied population suffers from unemployment or under-employment which has to be absorbed, and if this aim has to be achieved within ten years, then the annual increase in production must be fixed, at least, at 6 per cent ($3+1+\frac{20}{10}$), which will increase annual employment by 3 per cent. Moreover, it is possible to combine the aim of full employment with that of a definite increase in domestic consumption (by the producers): for instance, doubling the volume of this consumption in ten years. Suppose that in order to increase income by one unit we need to invest productively 3 net units. A growth-rate of 6 per cent for the national income therefore implies an investment rate of 18 per cent.* Suppose that unproductive consumption cannot be reduced below 10 per cent of current income, and that domestic consumption by the producers accounts for 75 per cent of the national income at the time when the plan comes into operation. Domestic consumption will thus have to be increased from index 75 to index 150.

Now, an annual growth-rate of 6 per cent will give us at the end of ten years a national income of 180. If domestic consumption increases to 72 per cent of this product (100–10–18), we shall have attained only index 130, instead of index 150. It follows, therefore, that to achieve at one and the same time the objective of full employment, mentioned above, and the objective of doubling domestic consumption, a higher annual growth-rate is needed, namely, 7 per cent. To double domestic consumption in ten years by reaching an annual growth-rate of 7 per cent, one cannot raise the investment rate above 18 per cent, if unproductive consumption absorbs 10 per cent of current income. In fact, a growth-rate of 7 per cent will bring income at the end of ten years to index 207·5, which implies index 150 for domestic consumption, if the latter takes 72 per cent of income.

The aim is thus to be attained either by increasing annual employment by 7 per cent instead of 3 per cent (if the existing stock of capital permits a proportionate increase in production), or by increasing productivity by 4 per cent instead of 3 per cent (if technological progress makes it possible to reach this result thanks to the increase in the *volume* of investment, which grows from index 15 to index 25·3 after five years and to index 37·3 after ten years, instead of growing to indices 24·1 and 32·2 respectively, as had originally been planned), or else by combining these two methods. The second would be preferable, since the first implies an increase in income per head of persons employed which is lower than had been envisaged, and since it risks causing a shortage of labour, if potential reserves (immigration, unproductive jobs, non-working housewives, etc.) are not available.

These calculations relate to the great masses of annual product and annual income, domestic consumption, public consumption, rate and volume of investment, employment, occupied population, increase in average productivity, ratio between existing stock of capital and current

* Cf. Kalecki: "To maintain the degree of utilization of equipment the capacity of the latter must expand proportionately to the increase in working population and productivity of labour. This gives us the clue to what should be the level of private investment. *Private investment must be at a level adequate to expand the capacity of equipment pari passu with the increase in working population and productivity of labour, i.e. proportionately to full employment output.*"[11] In our example, productive capacity must thus increase by 6 per cent.

income, ratio between net investment and gross investment,* etc. They are indispensable as basic calculations. They at once reveal the difficulties that have to be overcome (in the example we have chosen —achieving the annual increase in productivity). They determine the extent of the relative sacrifices that the working people would have to accept. They must therefore be the subject of previous public discussion, with scope for expression of critical and contradictory views. In this way, the masses will be able to choose in full awareness the variant, which seems to them the best, so that the people's sacrifices may in truth be freely agreed, with full knowledge of what is involved.

But this fixed framework must now be filled in with a more and more concrete content. After deciding on priority aims which involve both an overall growth-rate and a growth-rate for consumers' expenditure, one can translate these two rates into the various categories of consumer goods and capital goods. But they do not at all imply an equal rate of growth for all branches of industry.

In the nineteenth century, studying the evolution of family budgets of Belgian workmen, the Prussian statistician Engel discovered that consumer expenditure was subject to certain statistical laws. The more income increases, the more the share of it devoted to buying food declines. Among these expenses for food, the share of what are called "rough" or basic products (bread or other basic cereals, potatoes, pork meat and fat, etc.) declines as compared with what are called "noble" products (dairy products, fruit, sugar, beef and veal, etc.). The validity of this law has been confirmed by a threefold test: the differences in the structure of consumer expenditure, in a given period, between different classes of society; the differences in the structure of consumer expenditure in a particular country during the successive phases of economic evolution; the structural differences in consumption in different countries which, at a given moment, are at different levels of relative wealth.†

Thus in 1956, expenditure on food represented the following percentage of consumers' total expenditure, at current prices:

	%		%
Sweden	31	Finland	38
Norway	32	Italy	46
West Germany	32	Portugal	50

* The rate of growth of the capital goods sector (department I) determines the rate of growth of *gross* investment, since the total volume of production in department I serves *both* to replace capital goods currently used up and to create *additional* capital goods (net investment).[78]

† One must be careful not to attribute *absolute* value to this statistical law. Special circumstances (e.g. persistent shortage of durable consumer goods) may entail a relative level of food expenditure which is higher in a richer country than in one less rich (e.g., in 1957, comparatively higher level in Czechoslovakia than in Bulgaria).[79]

U.S.A.	26	Austria	37
Denmark	28	Holland	37
Belgium	30	Eire	38
Britain	33	Yugoslavia	50
France	37	Greece	58[80]

Furthermore, between 1938 and 1956, consumption per head of cereals and potatoes, on the one hand, and of meat, on the other, evolved as follows (in percentages):

	Cereals and potatoes	*Meat*
U.S.A.	−25	+29
Belgium	−11	+31
France	−13	+31
Finland	−14	+21
Greece	−6	+24
Sweden	−18	+8
Italy	−8	+7, etc.

Finally, between 1950 and 1957, expenditure on durable consumer goods increased much more substantially in Western Europe than total expenditure (per head of population and at constant prices): *

	Total consumers' expenditure	*Expenditure on durable consumer goods*
France	+32	+127
Austria	+40	+110
Italy	+30	+64
Britain	+11	+55
Denmark	+3	+51
Greece	+38	+49
Norway	+15	+43, etc.[82]

On the basis of these data, while avoiding excessively mechanical transpositions and using a variable scale of coefficients of the elasticity of demand for different products, it is possible to foresee what the structure will be of an increased volume of consumption at the end of the period envisaged.[83] From this can be deduced the varying rates of investment for each branch, the problems of transfer of labour from one branch to another, and also the specific structure of the means of production that heavy industry will have to supply to consumer-goods industry. The coefficients of expansion of the different branches of industry producing capital goods will have to be fixed, so that the initial proportions may be expanded according to a whole series of growth coefficients, variable but co-ordinated, covering all parts of the economy.

* Here is a recent application of Engel's law: after three years of exceptional economic progress, Yugoslav families spent in 1959 only 43 per cent of their incomes on food, as against 50 per cent in 1956, and they spent over 10 per cent on durable consumer goods, as against 4 per cent in 1956.[81]

For this growth to be proportionate, that is, for bottlenecks and major imbalances to be avoided, a two-fold check is needed: a check in terms of exchanges between industries and a check in terms of material balances.

The ingenious system worked out by the economist Wassili Leontief on the basis of the work of Gosplan in 1924, applied first of all to the U.S.A.[84] and rejected by Soviet experts until 1958, enables one to determine the relations between the major branches of the national economy. It has since been applied to a considerable number of countries.[85] Leontief's table relates to eleven branches of industry, to agriculture, to transport and to "households". These branches are arranged horizontally and vertically so as to form a matrix. This is an *input-output* table, in which the horizontal figures show what each of these 14 branches sells to the 13 others, while the vertical columns show what resources each branch buys from the others. The total at the end of each horizontal line gives us the value of production less the value added; the total at the bottom of each vertical column gives us the value of "intermediary purchases".

To simplify the work, Leontief's *input-output* table starts from the hypothesis that the relations between the different branches remain stable, that is, for example, that the increase in steel production by 10 per cent necessitates an increase of 10 per cent in the coke supplied to this branch by the "non-metallic minerals" industry. Technical coefficients are thus worked out which determine the mutual relations between all branches of the economy. Starting from the above-mentioned aims of the plan, one thus has to pay attention to the increase of production in all branches, so that these coefficients may be respected. In fact, the input-output calculation is simply an enlargement of the conditions of equilibrium in Marx's formulae of expanded reproduction. The two departments have been replaced by fourteen, which complicates the picture but makes it possible to bring it closer to reality.

Suppose that annual production takes the form of the following formula of expanded reproduction:

$$4{,}000\,c + 2{,}000\,v + 2{,}000\,s = 8{,}000\,\mathrm{I}$$
$$2{,}400\,c + 1{,}200\,v + 1{,}200\,s = 4{,}800\,\mathrm{II}$$

We know that the condition of equilibrium demands that department I sell to department II the same value that department II sells to department I; in the case which interests us, for example, $2{,}400\,c$ II + $600\,s$. acc. in c II = $2{,}000\,v$ I + 1,000 (s–s. acc. in c)I. Let us now divide the production of capital goods into two sectors: production of fixed capital (A) and production of raw materials and power (B). Let us similarly divide the production of consumer goods into two sectors: production of current goods (C) and production of luxury goods (D); assuming, to simplify matters, that unproductive consumption in each sector relates only to the last-mentioned category of goods. The value of the production of these four sectors will then present itself in the following form:

$$\left.\begin{array}{lrrrrrl} \text{A:} & 1{,}000\,c\,+ & 500\,v\,+ & 500\,s = & 2{,}000 & \text{A} \\ \text{B:} & 3{,}000\,c\,+ & 1{,}500\,v\,+ & 1{,}500\,s = & 6{,}000 & \text{B} \\ \text{C:} & 2{,}000\,c\,+ & 1{,}000\,v\,+ & 1{,}000\,s = & 4{,}000 & \text{C} \\ \text{D:} & 400\,c\,+ & 200\,v\,+ & 200\,s = & 800 & \text{D} \end{array}\right\}$$

The distribution of surplus value in each case being as follows: 50 per cent to c; 25 per cent to v; 25 per cent to unproductive consumption.

The following table shows, horizontally, what each sector sells to the others, and vertically, what it buys from them. For the system to be in equilibrium, the horizontal totals must correspond to the vertical ones. Where two figures appear in the same square, the first shows the requirements of simple reproduction, the second those of accumulation (expanded reproduction):

	A	B	C	D	Total	
A	250+ 62·5	750+187·5	500+125	100+ 25	2,000	8,000 I
B	750+187·5	2,250+562·5	1,500+375	300+ 75	6,000	
C	500+125	1,500+375	1,000+250	200+500	4,000	4,800 II
D	125	375	250	50	800	
Total	2,000	6,000	4,000	800	12,800	
	8,000 I		4,800 II			

The difference between this table and Leontief's consists in the fact that it compares the *total value* of all the commodities bought and sold, whereas Leontief's compares only the value of the unfinished commodities bought by each sector, not taking into account the "value added", which appears in his table in the form of a certain number of hours of labour.

The input-output table can be made still more complicated and realistic by dropping the assumption of fixed coefficients. Changes in the input-output ratio can be envisaged for certain branches, or certain categories of activity. Thus, the future power balance can be based on the hypothesis that fuel-oil and natural gas will increasingly take the place of coal and electricity, and electricity that of coal. The coefficient linking the electric power industry with the steel, metallurgical, etc., industries will thereby be increased, while that linking the coal industry with these branches will be reduced.

For a large number of products, especially raw materials, machinery and power, *material balances* can be worked out, which provide a check on the different objectives of the plan and should show whether it hangs together. As these balances are drawn up in *physical terms*, whereas the input-output table is drawn up in terms of *value* (except for the input of households), this provides a useful check on the internal cohesion of the plan. The total sum of electricity, or of machine tools, or of cement used in each branch, should correspond to the total amounts available (current production and fluctuations in existing stocks + balance of exports and imports).

New production relations and the socialised mode of production

There remains the bringing down of all these data to the level of the separate enterprises. Various methods could be used. One could determine the physical objectives to be attained, while leaving the enterprises the flexibility needed to reach these objectives in the best conditions of profitability (keeping within the framework of prices for capital goods regarded as fixed for a certain period of time). One could lay down objectives for the enterprises in terms of value to be produced, leaving them freedom to distribute this value over various types of product. Or, finally one could lay down minimum overall targets in value terms, and targets in physical terms for *some* products of high priority, while leaving them freedom to choose the rest in accordance with the highest profitability.

If the fiscal system (of allocating the income of the enterprise) is sufficiently strict to prevent any excess in investment within branches, or enterprises, which are particularly profitable, and yet sufficiently flexible to give the mass of the producers in each enterprise a direct interest in the objective results of their work, this last-mentioned formula is undoubtedly to be preferred.[86]

It is clear that there is no absolute rule in this matter, outside time and space. Experience has nevertheless shown that to lay down detailed and complete production targets for enterprises, in terms of physical quantity, of value (cost of production), of materials to be used, and of income, merely confronts them with insoluble tasks and undermines the principle of the plan more than would a certain degree of freedom of action for these same enterprises.*

The conquest of power by the proletariat, the socialisation of the major means of production and exchange, the opening of a phase of transition to socialist society—these enormous social upheavals fail of their purpose to some extent if they are not accompanied by radical changes in the atmosphere in the enterprise. The "social question" inherited from capitalism is not limited to an excessive limitation in the workers' effective consumption capacity. Nor is it to be solved by the mere *juridical* abolition of private ownership of the factories, banks and power stations. Its solution implies also the progressive

* Cf. the formula of the Polish Professor Bobrowski: "The number of decisions taken by a planning organ . . . is inversely proportional to their quality and efficiency."[87]

abolition of the hierarchical structure of the enterprise, the progressive abolition of the *social* division of labour—the division between those who accumulate and those who produce, between those who give orders and those who obey them—the progressive abolition of *alienated labour*, work carried out on other people's orders and for the benefit of others, and for this reason done mechanically and looked upon as *time lost out of one's life*.*

The definitive emancipation of labour—which is at the same time its negation as labour, in the traditional sense of the word, its transcendence by an infinitely richer and more varied form of human activity—is possible only in the final phase of socialist society, when the familiarity of abundance of goods and services will have completely changed man's social consciousness, and the extent of leisure, joined with the raising of the average cultural level of the masses, will have made it possible for all citizens to undertake, turn and turn about, the managerial functions in social economy. But while this process will not be *complete* until that moment, it must be *begun* as soon as possible after the overthrow of capitalism. More precisely: the *production relations* are not changed so long as the private employer has merely been replaced by the employer-state, embodied in some all-powerful manager, technocrat or bureaucrat. They are not changed until the various groups of workers start to have a *real, day-to-day* (and not merely formal and juridical) control over the management of the enterprises, the working out and carrying through of the plans, and the social surplus product created within the enterprise. The classical solution offered in this connection both by the experience of the labour movement and by socialist theory is the succession of phases: "workers' control" (i.e. supervision of the management by the workers); workers' participation in management; and workers' self-management.†

The problem of the management of enterprises in the epoch of transition between capitalism and socialism is certainly a complicated one. A simple formula is not adequate to solve it. Two parallel dangers appear: that of bureaucratisation and that of return to the anarchy of the market. These two dangers are by no means imaginary ones.

While it is possible to accuse of hypocrisy those who make a pretext of the bureaucratic danger in order to refuse or to delay the overthrow of capitalism (which combines with extreme bureaucratisation of big firms the hateful enrichment of their owners at the expense of the community), it is not to be denied that the concentration of all economic resources in the hands of the state involves the risk of

* See Chapter 5.

† "The communal régime once established in Paris and secondary centres, the old centralised government would in the provinces, too, have to give way to the self-government of the producers", wrote Marx.[88]

maintaining or even extending conditions of social inequality. The fact that this state declares that it rules "in the name of the working class" provides only a purely juridical consolation.*

When the workers are systematically eliminated from any participation in the management of enterprises, when inequality of income is increasing instead of decreasing, as was the case in the U.S.S.R. in the Stalin era, things are moving away from socialism rather than towards it. If, on the other hand, all enterprises are given an extensive, if not complete, autonomy, and encounter each other on the market as competitors free to seek the maximum income, then collective and egalitarian sharing of the income *within the enterprise* will not prevent social inequality and economic wastage from spreading *within the economy as a whole.* The factories which are technically best equipped and the most advanced parts of the country, will inevitably "exploit" the backward enterprises and less developed areas. *Any exchange on an equal footing between groups whose economic power is unequal increases the inequality between them and gives rise to inevitable economic fluctuations.*

The synthesis between the imperatives of central planning and the need for extensive self-management of enterprises by their workers must be sought along the lines of the rules set out above. But the requirements of workers' democracy and of constant improvement in consumption by the workers are also the requirements of economic efficiency. The more the productive forces develop, the more complex planning becomes, and the more it requires initiative, checking and constant revision of the plan by millions of citizens, both as producers (in order to increase the overall efficiency of the enterprises) and as consumers (in order to bring production programmes as near as possible to the needs and wishes of the people).

It will, moreover, have been observed that planning does not at all imply planning the expenditure of each consumer. On the contrary, it gives him a freedom of choice which is all the greater as the range of products is more complete. Unexpected changes in consumer demand may imply changes in the proportions envisaged by the plan. The latter will need continual adjustment. Questionnaires, and other kinds of inquiries, regular and on a large scale, to ascertain domestic

* "The Soviet Press relates with satisfaction how a little boy in the Moscow zoo, receiving to his question 'whose is that elephant?' the answer, 'the state's', made the immediate inference: 'That means it's a little bit mine too.' However, if the elephant were actually divided, the precious tusks would fall to the chosen, a few would regale themselves with elephantine hams, and the majority would get along with hooves and guts. The boys who are done out of their share hardly identify the state property with their own. The homeless consider 'theirs' only that which they steal from the state. The little 'socialist' in the zoological garden was probably the son of some eminent official accustomed to draw inferences from the formula: *'L'état, c'est moi'.*"[89]

wants and systems for passing on the wants of consumers not merely by this sampling but also through local initiative, will make it possible to render more exact provisions for the future than those which were originally based on merely statistical forecasts. The more the plan coincides with the real tendencies of consumption, the less will the survival of the market in the consumer goods sphere give rise to disturbances in the economy as a whole.

The perfecting of electronic computers has now facilitated the making of a series of calculations which enable detailed problems to be solved with mathematical exactness. It is especially within the individual enterprise that the choice between different variants can be settled in this manner. Operational research (linear programming) makes it possible to determine the optimum variant among various combinations of factors, by considering each time only one of these factors as a variable.*

In Sweden, for instance, the optimum utilisation of hydro-electric power stations during a period of thirty years was determined by an electronic machine, taking into account such various factors as weather forecasts (duration and severity of the winter freeze-up), the level of water in the reservoirs, the capacity of the turbines, the needs of the timber, paper and steel industries, the amount of timber floating down the rivers, the export of electric power to Denmark, and even the amount of water needed by the salmon! Over 3,000 different variants were envisaged.[91]

Agriculture and distribution in the transition period

The hardest problems to be solved during the period of transition from capitalism to socialism are those of agriculture and distribution. Large-scale capitalist production creates the pre-conditions for socialising and consciously planning the economy. But the unequal development of industry and banking, on the one hand, and of agriculture and distribution (including certain service sectors) on the other means that a capitalist sector which is thoroughly ripe for socialisation is combined with a sector in which *petty commodity production*, the small "independent" enterprise, is still predominant (whatever may be the ties of subordination by which big capital and the monopolies subject these enterprises and exploit them, often rendering their "independence" purely formal). It is rational and efficient to socialise a factory employing 10,000 wage-earners. It is neither rational nor efficient to socialise 10,000 small shops or small farms, whose owners employ no other labour than the unpaid labour of their own families.

* This technique was first worked out by Koopmans (*Activity Analysis of Production and Allocation*, Cowles Commission Monograph 13) to find the most rational route to be taken by empty ships sailing between a number of ports. when the total cargoes to be carried each month from each port were known.[90]

Besides this economic obstacle there is a social one. The working class and the great majority of the wage and salary earners are interested in seeing suppressed private property in the major means of production and exchange. Their organisation and their class-consciousness are the chief driving-force of social transformation. The class of small producers and small proprietors (or small farmers), which predominates in the sectors of agriculture and trade, is not organised but scattered. It is not moved by collective interests but by fierce individualism (except for agriculturalists in the most backward parts of the world, who have not yet cut the umbilical cord of primitive village communities). If this class is often revolutionary, this is only to the extent to which it aspires to a kind of private property which the semi-feudal structure of the given country denies it.

The difficulty is further increased by the extreme complexity of relations of production and exchange in these two sectors, in each region of the world if not in each important country. Everywhere we find coexisting, on the same territory, model capitalist farms, small, independent family farms, wretched farms occupied by poor peasants who are half wage-earners and half farmers, or even the destitute possessing not the smallest bit of land. Innumerable combinations and intermediate forms are also to be met with. The situation is no simpler in the distributive sector, where there coexist, at least in the most advanced capitalist countries, large capitalist stores, capitalist "chains" of small shops, well-established family firms, small shopkeepers who are in practice wage-earners employed by the trusts, co-operatives, and wretched small "businessmen" who often earn less than the minimum wage of an industrial worker, and toil twelve hours a day to get it.

A single solution valid for all these diverse situations cannot be found. But the two principles from which any solution ultimately has to start are these: no socialisation (whether *de facto* or *de jure*) of enterprises is justifiable unless the technical conditions make possible a higher output this way than private enterprise can get; and no socialisation is justifiable unless the small proprietors (small producers) agree to it, either from conviction or from material interest, or (what is, of course, the ideal situation) from both motives at once.*

It follows that the structure of agriculture and distribution will

* Cf. Engels: "When we are in possession of state power we shall not even think of forcibly expropriating the small peasants (regardless of whether with or without compensation), as we shall have to do in the case of big landowners. Our task relative to the small peasant consists, in the first place, in effecting the transition of his private enterprise and private possession to co-operative ones, not forcibly but by dint of example and the proper social assistance for this purpose. And then of course we shall have ample means of showing to the small peasant prospective advantages that must be obvious to him even today."[92]

inevitably be complex and "plural" in most countries on the morrow of the overthrow of capitalism, except perhaps in the most backward countries. Large estates worked, already under the old régime, by agricultural wage-workers who are organised in trade unions and class-conscious, can be socialised, together with the big stores. Small peasant owners of land and small traders will be grouped into co-operatives of various kinds, in order to increase their output and their income, while leaving them in the position of individual owners and entrepreneurs. Other small proprietors, and especially small non-owning farmers can be grouped, with their full consent, into producers' co-operatives. Finally, a policy of distributing the land of the semi-feudal landowners (or belonging to banks, mortgage firms, etc.), together with a policy of cheap credit, can, on the contrary, transform into small proprietors "entrepreneurs" who, under the old régime had to hire their principal means of production (or exchange).

The integration of these disparate sectors into the planned economy can be effected fundamentally only through the market. The only real alternative solution is coercion, the ineffectiveness of which has been fully demonstrated by history (especially by the ordeal of Soviet agriculture between 1929 and 1953). The only way to make the peasant interested in increasing output and lowering costs of production is to make these activities profitable to him.[93] The only means of interesting the small trader in a real rationalisation of distribution is to make it possible for him to earn more that way. In the one case as in the other, increasing output and rationalising may mean transferring labour from agriculture and distribution into industrial production or other sectors. If, however, this transfer takes place neither through coercion nor through the pressure of a fall in the standard of living, but instead by the attraction of higher pay, more civilised working conditions and a more comfortable standard of life, it corresponds both to the interest of society and to that of the individuals concerned.

The more the productive forces develop, the more the socialised sector of the economy is consolidated, then the more the progressive socialisation of agriculture and distribution can be carried out through competition between the petty production sector and the socialised sector, which will continually improve the standard of living of the small producers—and distributors—themselves. The latter will receive more and more consumer goods from the planned sector, but will at the same time have to face harder and harder competition from mechanised and specialised agricultural enterprises, with big stores, co-operatives and self-service establishments better equipped than they are. Interest and experience will make only a matter of time the grouping of small agricultural and commercial enterprises into co-operatives which will enable them to adopt more and more efficient techniques.

A mixed economy?

Various theoreticians, some socialist and others not, have argued for a mixed economy for the period of transition to a more "humane" economy. The nationalisation of a few "key" sectors of the economy should be combined, they urge, with the retention of private property in other important sectors of industry.[94] A solution like this would, in their view, make it possible to keep to the minimum the social costs of planning, without detracting from the economic effectiveness.

Experience shows, however, that this view comes up against an insuperable stumbling block. Either the extent of the nationalisations is slight, so that the economy is not really "mixed" at all, but basically capitalist, or else it is considerable, and the threat of nationalisation hangs over the other sectors. In the latter case, the economy will not function satisfactorily, because the non-nationalised sectors carry out disinvestment, and basically there is no planning.[95]

A system based on private property and private profit cannot function adequately unless the capitalist "rules of the game" are respected. It can resort to *supplementary* techniques of "planning", especially where it is a question of nationalising losses, or of subsidising new (or sick) industries. It cannot in the long run cohabit with important sectors of production, and above all with an overall management of the economy, which are not guided by the criterion of profit.[96]

Actually, the various Western experiments in "planning" (national budgets in the U.S.A., Britain and Sweden; the Commissariat du Plan in France; the Planburo in Holland, etc.) have been restricted to the making of long-term forecasts* so as to *guide* the capitalists, to facilitate their taking of investment decisions in the sectors where profits are surest, (often thanks to guarantees and subsidies by the state). They have neither achieved long-term full employment, nor prevented cyclical fluctuations, nor ensured optimum economic growth, nor prevented the appearance of bottlenecks and serious imbalances.

In fact, private enterprises are not obliged to conform to this *indicative planning*; they are merely asked to follow its advice. When they refuse to do this, the "supplementary" initiative of the bourgeois state does not venture to set up public enterprises which would compete with this defaulting private initiative.[97] On the contrary, it offers the private firms "incentives" (that is, bonuses for idleness and incompetence!) with a more and more lavish hand, in order to encourage them to follow its advice. The nationalised sectors, regarded as means of subsidising the private sector (especially through their price policy), run very largely by representatives of the private sector,† neglected as regards investment (which has to be paid for by "the taxpayers"),

* These forecasts amount, moreover, to mere extrapolations of current tendencies, slightly modified by a few "overall targets".

† See Chapter 14.

can but rarely play the dynamic role assigned to them in theory. Instead of genuine planning, what we have is a half-hearted, clumsy, embarrassed attempt to manage the economy, which often interferes in a contradictory way, and whose balance of achievement is most "positive" in periods of war economy and of reconstruction, that is, in periods of acute shortage.[98]

Effective planning of the economy, and *a fortiori* the economy's optimum growth, are attainable only if the autonomy of decision of the key enterprises (determined by private ownership) is abolished, if the volume of investment is fixed overall and distributed among the sectors and enterprises in accordance with the targets to be achieved, even if that means that during an entire period sectors in which "profit" is reduced to little or nothing are given priority development as compared with sectors in which profit is higher. This means that the building of schools, hospitals and comfortable working-class houses has priority over the building of luxury flats, office blocks or "representative" branches of banks. Both as regards private ownership of the means of production and as regards inequality of income (of "effective demand"), radical changes are indispensable if *imperative* economic planning is to be possible and effective. Political power must pass from the bourgeoisie to the working class. The socialisation of the major means of production, distribution and exchange must be carried out.

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CHAPTER SEVENTEEN

SOCIALIST ECONOMY

Mode of production, mode of distribution, mode of life

THE socialisation of the major means of production and exchange brings into existence a new mode of production, no longer based on *private appropriation of the social surplus product*. During the period of transition from capitalism to socialism, however, socialisation of the means of production is still linked with *private appropriation of the necessary product in the form of wages*, of exchange, of the selling of labour-power for a money wage. Furthermore, part of the social surplus product is still appropriated in the form of individual consumer privileges, and under a bureaucratically-deformed régime of the transitional society these privileges may assume very considerable dimensions. Private interest thus remains the basic stimulant of individual economic effort. The economy continues to be a money economy.

From the economic standpoint, the contradiction between a mode of production based on collective ownership of the major means of production and collective appropriation of the social surplus product, on the one hand, and on the other, the private interest which continues to operate as chief driving-force of individual economic activity, is a constant source of friction and contradiction under planned economy.* But even more important than this economic contradiction is the *social* contradiction that follows from it. "Labour", regarded as the full development of all the potentialities of each individual, and at the same time as conscious service by the individual to society, is a concept which in the long run is incompatible with the concept of "labour" as the way of "earning one's living", of ensuring one's means of subsistence, or appropriating, so far as possible, all the goods and services that enable an individual to satisfy his needs.

So long as the economy continues to be fundamentally a money economy, with the satisfaction of the bulk of people's needs depending on the number of currency tokens a person possesses, and so long as, under conditions of relative shortage, rationing by the purse governs distribution, the struggle of all against all to appropriate a bigger proportion of these currency tokens will inevitably persist. So long as the exercise of certain social functions makes it easier to

* See Chapter 15, "The Soviet Economy".

appropriate comparatively scarce goods and services, it is inevitable that the phenomena of careerism, nepotism, corruption, servility towards "superiors" and an autocratic attitude to "inferiors" will remain widespread. The absence of a genuine democracy of producers, consumers and citizens, of strict and untrammelled supervision by them of the activity of administrators and leaders, of the possibility of replacing the latter without coming up against a jointly organised resistance and without having to go beyond legal methods: all these gaps cannot but accentuate the corrupting influence of money in all spheres of social life. The continued existence of money and commodity economy in itself implies the survival of the phenomenon of *universal "mercenariness" of life* which their original appearance give rise to in primitive communities based upon the production of use-values. If, in the economy of the transitional period, access to comfort were institutionalised instead of remaining directly negotiable by means of money, the influence of this "mercenariness" would be indirect rather than direct—which does not mean that it would be any the less. The public discussions which have taken place in the U.S.S.R. about the abuses entailed by the stampede to get university places have told us a great deal on this point.[1]

The authorities and the influential writers who continually declare, in the U.S.S.R. and elsewhere, that it is necessary first and foremost to "create a new outlook", that labour must first become "an individual necessity felt to be such by the individual", before material incentives can be abolished, and the transition made to distribution according to need,* reveal a "voluntarist deviation" and reverse a relationship of cause and effect which is nevertheless quite obvious. It is necessary *first* to see the withering away of money economy through the production of an abundance of goods and services, before the psychological and cultural revolution can fully manifest itself, and a new socialist consciousness bloom in place of the egoistic mentality of the "old Adam". In the era of the transitional society, and *a fortiori* in the U.S.S.R. or China, it is not "capitalist survivals" that give rise to a desire for individual enrichment, but *the everyday reality of distribution rationed by money*. To hope to create, under these conditions, a "communist consciousness" by means of a "struggle against the survivals from the capitalist past" is to undertake a real labour of Sisyphus.

Before the acquisitive outlook of individuals can disappear as the essential driving force of economic behaviour, these individuals must have acquired experience that society has ceased to treat them as Cinderellas and become a generous and understanding mother, automatically satisfying all the basic needs of her children. This experience

* See, for example: A. Lyapin, *From Socialist Labour to Communist Labour*: V. A. Sukhomlinsky,[2] etc.

must have penetrated into the unconscious of individuals, there to encounter the echoes from the primitive-communist past which have never been completely buried by the effects of 7,000 years of exploitation of man by man. This experience must have produced a conscious awareness of the new situation, and, more than that, *new habits and customs*, for the psychological revolution to occur and for the "old Adam" to die and give place to the socialist or communist man of the future.

If Marxists consider that plenty is a necessary condition for the coming of a fully-developed socialist society, it is in this sense and for this reason. The new way of life cannot be born otherwise than from the *integration* of a new mode of production and a new mode of distribution. It is not a matter of preaching socialist morality, but of creating the material social and psychological conditions for this morality to be applied by the great majority as a matter of course.*

Individual wages and social wages

The concept of wages is defined by several features. The three most important are *payment (a price) in money, in exchange* for a quantity of labour (of labour-time) provided; payment which is strictly *limited* by the quantity of labour provided, the exactly-measured *duration* of the expenditure of labour-power; and payment which results from a sale of labour-power that is *forced* upon the seller because it offers the only way whereby he can obtain the means of payment he needs for the consumer-goods to keep him alive. These definitions continue to be valid in post-capitalist society (the transition period between capitalism and socialism), no less than in capitalist and pre-capitalist society, in so far as wages continue to exist, at least as the *predominant* way of remunerating labour supplied either to individual owners of means of production or to the state as collective owner.

The argument according to which a wage-earning class no longer exists once there is collective ownership of the means of production, "because a worker cannot sell his labour-power to himself", is a crude sophism. Collective ownership means ownership by the community, and not ownership by each individual member of the community. A member of a co-operative may well sell a car, his individual property, to the co-operative he belongs to; in the same way, a worker may sell, to the community he belongs to, his labour-power, which is his individual property. The *obligation* to carry out this sale in order to obtain the necessary means of subsistence proves the survival of the wage relationship both from the standpoint of the *form* of the act of exchange (sale for a definite price in money) and of its *content* (the worker sur-

* This is why the view of the Yugoslav theoretician Horvath, according to which a communist society can be based upon the retention of a commodity-money economy is particularly unrealistic.[3]

renders the only commodity he possesses, and of which he cannot himself employ the use-value, so as to be able to acquire other commodities the use-values of which are essential for his continued existence and that of his family, *and which he cannot acquire without exchange*).

Since the beginning of the monopoly capitalist era and the rise of a powerful labour movement in the advanced industrial countries, individual wages are no longer the *only* way in which individual labour is paid for. Alongside them has appeared the *social dividend or social wage.*[4] This means the totality of the payments which are made to the individual by society, regardless of what the former has or has not given in exchange, as an individual: free elementary (and, later, secondary) education; free school meals; free health services, free hospital care and even free prescriptions; free parks, museums and sports-grounds; free, or almost free, muncipal services, such as public lighting; etc.

One must, of course, be clear about the meaning of the expression "free education" or "free health service". The freedom from payment applies only *to the individual*; *society*, must, of course, "pay" for these services, that is, devote part of its resources (of its total available labour-time) to the satisfaction of these needs. The "social wage" is thus the *socialisation of the cost* of satisfying a certain number of needs for all citizens.

This "social wage" foreshadows, at least potentially, the mode of distribution of the future, that is, of an economy directed towards satisfying the needs of all individuals. An economy based on the satisfaction of needs differs from a commodity economy in so far as it satisfies these needs *a priori*, distributing goods and services *regardless of any exactly-measured counter-payment* (exchange) supplied by the individual.*

* Cf. Lewis Mumford: "The foundations of this system of distribution already . . . exist. Schools, libraries, hospitals, universities, museums, baths, lodging houses, gymnasia, are supported in every large centre at the expense of the community as a whole. The police and the fire services, similarly, are provided on the basis of need instead of on the ability to pay: roads, canals, bridges, parks, playgrounds, and even—in Amsterdam—ferry services are similarly communised . . .

"In actuality, the claim to a livelihood rests upon the fact that, like the child in a family, one is a member of a community: the energy, the technical knowledge, the social heritage of a community belongs equally to every member of it, since in the large the individual contributions and differences are completely insignificant . . .

"We give at least a minimum of food and shelter and medical attention to criminals who have presumably behaved against the interests of society: why then should we deny it to the lazy and the stubborn? To assume that the great mass of mankind would belong to the latter category is to forget the positive pleasures of a fuller and richer life."[5]

Even in capitalist society, elementary education is free whether or not a child's parents pay their taxes, perform useful work for society, are "good citizens" or are hardened criminals.

But this "social wage" merely *foreshadows* the mode of distribution according to need; it does not offer a true image of it, even in societies which are in transition from capitalism to socialism (except, perhaps, where this transition takes place in the richest countries). It is only the commodity, money *form* of wages that has been given up; the *content*, poor and measured out with miserly care, is still the same.

Since we are still in an economy of semi-shortage, the social services are usually treated like poor relations. The way they are distributed is more akin to *rationing* than to *plenty*; sometimes it is even accompanied by an *obligation* (elementary education, vaccination, etc.). Excessively large classes; "mass-production" medical treatment ("doctoring on the cheap"); neglect of "non-paying" clients in favour of "paying" ones—these features link the embryonic forms of the "social wage" which much more closely to the commodity society which has given rise to them than to the socialist society whose task will be to open the way to plenty.* Only in a few special cases can the infinitely richer, freer and more varied content of the socialisation of costs reveal itself: free libraries which offer practically *all* kinds of books which may be asked for (and here it is necessary that room in such libraries be not strictly rationed!); museums and parks, open free of charge, which enable all citizens to enjoy the pleasures formerly reserved to a few narrow strata of rich or highly-educated people.

The prodigious development of the productive forces in the era of transition from capitalism to socialism makes it possible to set in motion two processes which radically alter the mode of distribution: on the one hand, the "social wage" must draw closer and closer to its "ideal" norm, that of plenty; on the other, more and more goods and services must pass out of the category of those distributed through exchange (purchase) and into that of goods and services distributed according to need.

The conditions governing this transformation of the mode of distribution are still linked to the requirements of a society based on semi-shortage. Before freeing itself from the heavy, age-old burden of economic calculation, society needs to calculate more exactly and precisely than ever before. The first goods and services to which the new norms of distribution can be applied are thus those

1. which are very homogeneous;
2. for which demand has become inelastic, in relation to a fall in prices and a rise in incomes;

* See the interesting studies by Brian Abel-Smith, Raymond Williams and Peter Townsend, in *Conviction.*[6]

3. which it is hard to use as products or services replacing those which are still distributed according to the norms of exchange of a commodity economy;
4. or the distribution of which in return for payment in money involves obvious injustices (actually reducing the national income), whereas free distribution would considerably enhance social welfare (providing a potential source of increase of the national income).

In short, society first socialises the costs of satisfying needs under conditions such that this socialisation does not involve a considerable increase in these costs. When demand for a product has become inelastic, however much prices fall or incomes rise, the socialisation of the costs of production of this product entails no extra charge for society as a whole. This is the position, for instance, with *salt* in every industrially advanced country, where consumption of it does not vary, in normal times, either with its price or with people's incomes.[7]

The economic law which governs the withering-away of commodity economy can be formulated like this: as society gets richer, and as planned economy ensures a mighty expansion of the productive forces, it acquires the resources needed to socialise the costs of satisfying an increasing number of needs for all citizens. And as the standard of living of the citizens rises, the elasticity of demand for more and more goods and services declines to zero, or even becomes negative, in relation to price reductions and increases in income. In other words, for these two reasons, the advances of planned economy make it possible to transfer more and more goods and services into the category of those which can be distributed in accordance with needs.

Already today in the richest countries, basic food needs—in the West, bread and potatoes—have become negatively elastic in relation to the rise in income. Satisfying them no longer demands more than a very small proportion of social resources. In Belgium, annual expenditure on bread fluctuates around 8 billion francs, out of a national income of nearly 500 billion francs, or less than 2 per cent.[8] In the U.S.A., consumption of grain as food in any form declined from an average of 3·77 bushels per head of population in 1937–1941 to 3·28 bushels in 1948 and 2·80 bushels in 1959.[9] It is the same with public transport in many metropolitan centres in industrially advanced countries. In all these cases, the *economic* conditions for distributing these goods (bread or rice) and services (public transport) through a socialisation of costs, that is, distributing them according to need, are already completely present. To these goods and services must be added those to which Cassel has given the name of "collective needs": education, health services, etc.[10]

Basic needs and secondary needs: freedom of consumption and rational consumption

A number of writers admit that such a *partial* transformation of the mode of distribution is feasible. But they do this, usually, only in order to deny at once that it could become universal in its application. Are there not constantly new needs arising, as fast as the "classical" needs are satisfied-[11]* Is it possible to bring *all* products, one after another, into the category of those which are distributed according to need, without at the same time giving rise to all-round wastage of society's resources, and thus seeing the reappearance of shortage in new spheres? Do not the products which satisfy even such basic needs as food, clothing and shelter vary *ad infinitum* in diversity and quality? Will not an attempt to do away with exchange and money in these spheres result in a dreary uniformity and lack of freedom?

Let us take first the question of the alleged variety of needs. Any moderately serious study of anthropology and history will show, on the contrary, how remarkably stable they are: food, clothing, shelter (and in certain climatic conditions, warmth), protection against wild animals and the inclemency of the seasons, the desire to decorate, the desire to exercise the body's muscles, the satisfaction of sexual needs, the maintenance of the species—there are half a dozen basic needs which do not seem to have changed since the beginnings of *homo sapiens*, and which still account for the bulk of consumer expenditure.[14]

To these we may add needs for hygiene and health-care (simple expressions of the instinct of self-preservation at a certain level of consiciousness) and needs to enrich one's leisure (simple extensions of the needs to decorate, to exercise one's muscles, and to increase one's knowledge, which are as old as the human race), and we have almost exhausted the list of consumer expenses even in the richest countries of the world, on the basis of a small number of basic needs which are anthropological characteristics to a much greater extent than products of special historical conditions.

Since these needs have remained basically unchanged since the appearance of man on earth, and since even the richest classes of past ages have not extended their consumer expenditure beyond this remarkably short list of satisfactions, there is no reason to suppose that the coming of a socialist society, of abundance of products, and of individual and social consciousness at a much more mature level than ever before, will give rise to any revolutions in this sphere. Nowhere does the law of "diminishing returns" apply more than in regard to the intensity of needs.[15] Thus the first objection is disposed of.

* See, for an excellent refutation of the theory of needs growing *ad infinitum*, Lewis Mumford's *Technics and Civilisation.*[12]

It is all the more regrettable that a Yugoslav theoretician like Horvath should adopt the thesis that needs can grow *ad infinitum.*[13]

Let us now look at the apparently infinite variety of means to satisfy these few basic needs. There is, first, the problem of the *quantity* of the products required to met these needs. On this point, history has already provided an answer, on the part of the possessing classes of our era. Between the stout country squire of the early nineteenth century stuffing himself with roast beef and swilling port wine, or the big bourgeois of the "Belle Epoque" with his twenty-course dinners, on the one hand, and, on the other, the rich capitalist of today, slim, devoted to sport, and constantly watching his weight, the change is undeniable. With the increase in income, *the increasing consumption of food has given way to a more rational kind of consumption*; the criterion of health has superseded that of blind or showy self-indulgence. This change does not so much reflect an ethical progress as it reflects the demands of self-preservation, the self-interest of the individual himself.

The same applies where dress is concerned. True, in this sphere, especially among women, the amount of clothing "consumable" without damage to health and the possibilities of waste (clothes worn only once or twice) are much greater than in the sphere of food. Nevertheless, if the restraints of health do not apply here, those of *comfort* and *taste* soon come into play. Without the help of lackeys and servants it is not very comfortable to change one's clothes too often or even to possess too many. Indeed, though excesses in this sphere are constantly committed by the "new rich", several sociologists have observed that in the richest families of Britain and the United States a real reversal of this trend has occurred; clothes which are worn but comfortable, or simply clothes one likes, are preferred to clothes glowing with freshness or which are continually being replaced.[16] Others even speak of a stylistic evolution in clothing, which they describe like this: "first, a steady trend toward uniformity, with the clothing worn by people of moderate income coming to approximate the appearance and materials of the clothing worn by people of high income; second, a decline in the number of frills, reflecting a movement in the direction of greater simplicity; third, and most recent, an 'accent on youth'."[17]

The same situation exists in respect of housing and furnishing. When domestic servants and even housekeepers have vanished—and the new level of wages, together with social disapproval, will certainly make them vanish in the transitional society between capitalism and socialism!—there is a limit to the number of rooms one can *wish* to have (and can get) for one's accommodation, a limit dictated precisely by individual comfort. Already, today, except for a handful of millionaires, the luxury flat is preferred by most bourgeois to the nineteenth-century country house. Sweeping away the old-time rooms crowded with furniture and knick-knacks, the evolution of comfort and taste has dictated a mode of furnishing the sobriety and functional nature of which set a relatively narrow limit to quantitative accumulation. This tendency even goes so far as to impose a voluntary restriction on the number of gadgets.[18]

There is no reason to suppose that these tendencies, which are already manifest in the last phase of capitalist society, *despite* a striking degree of social inequality and unlimited chances for waste on the part of the possessing classes, will be reversed in the era of transition from capitalism to socialism, or in socialist society itelf. On the contrary, it is infinitely more probable that *rational consumption* will develop further, at the expense of consumption inspired by mere caprice, desire to show off, and lack of taste or sense of proportion, forms of consumption which, in capitalist society, are not so much "innate in the consumer" as dictated and conditioned by the general social climate and the efforts of advertisers.

It remains to consider the problem of the diversity and quality of products which, instead of their quantity, delay the coming of the time when demand for them becomes inelastic both to price changes and to income changes. The phenomena of diversity and quality are nowadays dictated by fashion, by the compartmentalising of society, and by technical progress ("new products"). All these phenomena are, in the last analysis, *independent* of individual whims; even in capitalist society they are *social* phenomena, guided if not consciously determined by social forces.

Fashion is a typically social phenomenon, with the impetus coming from the side of the producers (the designers), not from that of the consumers. It is a few important *couturiers* in Paris who "make" fashion, not the "public". Already today, for the huge majority of consumers, the range of variety is remarkably *narrow*, and not at all limitless. At any given moment there are not an infinite number of styles "coexisting", but only a few. Even in the *haute couture* of our time, based on craft methods and the individual client, there are not "thousands" of different models; the number is more limited than is supposed. And alongside these specially-made models, intended for a few rich women, there is a small range of models which are mass-produced and intended for the masses. A socialist economy would probably be able to *expand* much more widely this range of varieties at present available, rather than have to restrict it, so as to be able to go over to distribution according to need. To do this it would rely on the law of large numbers, on the permanence of physical requirements, on the educative effect of "socialist advertising", on public opinion polls, on public competitions and other techniques which would make it possible really to proceed from the tastes and wishes of consumers in order to determine the variety of goods produced. For this reason we cannot go along with Oskar Lange and H. D. Dickinson when they propose to retain commodity economy in a socialist economy so far as all high-quality products are concerned.[19]

As for new products, their mass production and their "launching" on the market, that is, their large-scale distribution among consumers, is already determined by the firms which produce them and not by the whims of the consumers. It is thus well and truly "planned"—but planned by a handful of capitalist firms, in accordance with criteria of private profit alone, and not in accordance with the objective and rational needs of the community and of the individuals composing it. How indeed can one talk of the consumer's "urgent need" for products which he does not know exist, "urgent needs" which do not reveal themselves until, as though by chance, the producer launches his new product on to the market?[20]

A socialist society would of course not hand over this planning to the "masters" of production and of promotion. It would avoid duplication of work and obvious waste. But it would take into account much more fully than is done today the real wishes of consumers, through the use of all available techniques of sampling opinion, direct questioning and meetings of citizens. It would extend the range of choice much further than today. And as in the sphere of consumer durables the measurement of needs is much easier and more precise, and waste can be easily checked, it is also much easier to determine the quantity of products needed to be accumulated in store in order to produce inelasticity of demand in relation to prices and incomes.

A certain margin of uncertainty may, of course, continue to exist. It will long, if not always, remain possible that there will be a conflict between the socialisation of certain household tasks and their carrying-out on an individual basis with the help of improved mechanical means. The washing-machine and the dish-washing-machine will go on being sought for, even when a very extensive and convenient network of restaurants and laundries has put high-quality services, free, at the disposal of all citizens. A socialist society will never *dictate* to its members the obligatory use of communal services by refusing to make available to them the means of securing these same services on an individual basis. Because such a society will aim to satisfy *all* the rational needs of man, it will respect the need for periodical isolation and solitude, which is the dialectical and permanent corollary of man's social nature. Similarly, while the individual motor-car is obviously irrational as a means of transport in towns, it remains by far the most flexible means of transport for leisure trips over a short or medium distance, and even when travel by air, rail and bus are free, men will go on wanting a private motor-car in order to follow their own itineraries, stopping where trains and buses do not stop, or merely in order to be alone. A socialist society will respect these wishes and, far from condemning them as "petty-bourgeois survivals" will endeavour to meet these needs, the rational nature of which will be obvious to anyone of good faith.

There is thus no substantial obstacle to the progressive universalisation of the new mode of distribution, according to need, without any counterpart in the form of an exactly measured amount of labour being required. On the contrary, present-day evolution, though distorted by all the consequences of a social setting dominated by money, exploitation, inequality and the desire to "succeed" at the expense of one's neighbour, already clearly shows the main lines of the future evolution of consumption. Consumption on a basis of plenty and freedom, far from developing without any limit towards irrational caprice and waste, will increasingly assume the form of *rational consumption.** The requirements of *physical health and mental and nervous equilibrium* will more and more take precedence over the other motives of human behaviour. They will logically be the chief concerns of men whose basic needs have been met. Arrival at this conclusion requires no "idealisation" of man. As we see from the example of food-consumption by the capitalists of today, this corresponds to the very nature of the vertical animal, to his most obvious physical interests.

Ota Sik[21] distinguishes between economic and non-economic needs. This distinction, though useful for the purposes of formal analysis, entails the risk of introducing a dangerous confusion when it is a matter of defining the conditions that govern the arrival of a mode of distribution based on the satisfaction of needs. The problem is restricted to that of the distribution of material goods and services, which, though today subject to conditions of semi-poverty, will doubtless become abundant tomorrow. Some of the "cultural needs" mentioned by Sik are to be included in this category (needs for artists' equipment, means of transport for travel, means of education, and so on). Others of these "needs", however, clearly have nothing to do with goods and services: the need to investigate, to create, to teach, and so on. What we have here are more and more complex and elevated forms of *activity*, of human *praxis* becoming more and more universal. Including these in the same category of "needs" can give rise to many misunderstandings.

Withering-away of commodity production and money economy

While the "social wage" affects only a very small part of total consumption, its profound psychological and social implications remain limited or even quite hidden. The social climate of capitalism corrupts everything it touches, even those buds of the future society which are slowly opening within it.

* The final argument against the theory of unlimited expansion of needs is the limited duration of the time available in the course of a human being's life!

Hollingshead and his associates at Yale found that, even at the out-patient clinic where cost is no factor, "the higher an individual's social class position, the more likely he was to be accepted for treatment, to be treated by highly-trained personnel, and to be treated intensively over a long period". (Students treated the lower classes, residents-in-training tended to be assigned to middle-class patients, and the senior staff members took the higher-class patients.) It was found that these clinics spend eight times as much money treating a Class II patient as they do treating a Class V patient. There is a tendency to give individual psychotherapy to the higher classes, and administer shock-treatment, drugs, organic therapy, etc, to the lower-class patients.

"Hollingshead and Redlich report that this finding of discrimination 'came as a "bolt out of the blue" for the men who determined the policies of this clinic. It was certainly not planned. A similar situation is found in the public mental hospitals, where, also without regard to the ability of the patients' families to pay, the acute schizophrenics in Class III are more likely to get psychotherapy than Class IV and V patients in the same disease group who entered the hospital at approximately the same time.' The Class IV or V schizophrenic, they added, may receive one or two series of organic treatments in a public hospital. If these do not succeed, 'the patient drifts to the back wards where, in stultifying isolation, he regresses even more into a world of his own'."[22]

But when the "social wage" extends to the bulk of individual consumption* its economic, social and psychological implications are sharply manifest. Until then, economic growth, the rise in the standard of living, always implied an *extension of money and commodity economy*, in the era of transition from capitalism to socialism as in earlier periods.[24] Now, however, they imply, on the contrary, a more and more marked *shrinkage* of measured exchanges and of the use of money.

This happens in the first place, for obvious economic reasons. If an increasing proportion of needs are satisfied without expenditure of money by the consumers, this expenditure must relate to an increasingly restricted sphere of economic life. And if *increasing* money income is spent on acquiring a steadily *decreasing* number of commodities and services, then useless tensions are caused. There would have to be either a frantic increase in prices in this sector, or else the artificial stimulation of a continual emergence of "new" products, and

* The "social wage" must not be confused with the "indirect wage" or "transferred wage". These latter forms of payment are only *deferred money income*, whereas the "social wage" is distinguished by being an allocation *in kind*. This confusion is current among Soviet writers, and appears in the new programme of the C.P.S.U., in which, under the heading of "social consumption fund", sickness benefit and old-age pensions, on the one hand, and free education and health services, on the other, are all mixed up together.[23]

the appearance of "new needs", or else the soaking-up of an increasing proportion of this money income by means of taxation. The circulation of money would appear as more and more futile and pointless. In practice, the producers would receive ever-higher "wages", an increasing proportion of which would, however, be kept back at source, the remainder being spent on more and more casual and minor requirements. Money would thus in any case be excluded from the essential economic circuits, concerned with meeting basic and ordinary needs, and driven into the periphery of economic life (conspicuous consumption, gambling, forms of expenditure which socialist society would increasingly subject to more disapproval and penal taxation).

The most logical solution would be to *reduce*, and not increase, the amount of individual money wages and salaries, to reduce the circulation of money, in proportion as the new mode of distribution according to need spread and became general. "Individual wages" would become increasingly a small supplementary bonus to ensure the distribution of the last "scarce" goods and services, the last vestiges of "status" inherited from the age of social inequality. It would increasingly lose its function of preserving the consumer's freedom of choice, from the moment when plenty embraced an increasing range of goods and services. "Choice" will be restricted to spending one's time in shifting from one point of distribution to another, dividing one's time between one form of consumption and another, instead of substituting one form of expenditure for another. Commodity economy, money economy, the economy of semi-shortage, will have begun to wither away.

It is not only the logic of the new mode of production that will bring about this withering away of commodity production. *Automation* entails the same logical necessity in the sphere of production. The production of an abundance of goods and services is in fact accompanied by the more and more rapid elimination of all living, direct, human labour from the production process, and even from the distribution process (automatic power stations; goods trains driven by remote control; self-service distribution centres; automatic vending machines; mechanised and automatised offices, etc.). But the elimination of living human labour from production means the elimination of wages from the cost of production! * The latter is increasingly reduced

* It is pointless to dwell here on the insoluble contradictions to which automation giving rise to plenty would lead in capitalist society; the same force which creates an abundance of *goods* abolishes their potential *buyers*! But automation must necessarily lead to socialism for another reason, which Erich Fromm has well emphasised: "Is man, during the next few hundred years, to continue spending most of his energy on meaningless work, waiting for the time when work will hardly require any expenditure of energy? What will become of him in the meantime? Will he not become more and more alienated and this just as much in his leisure hours as in his working time?"[25]

to the "costs" of operations between enterprises (purchase of raw materials and depreciation of fixed plant). Once these enterprises have been socialised, this involves much less transfers of real money than simply accounting in monetary units.

As services will continue non-automatised for a longer period than goods, money economy will retreat more and more into the spheres of exchange of services for services, purchase of services by consumers, and purchase of services by the public sector. But in proportion as the principal services become automatised in their turn (e.g. public services, automatic machines for providing drinks and standardised articles of current use, laundries, etc.), money economy will become restricted more and more to "personal services" only, the most important of which (medicine and education) will, however, be the first to undergo a radical abolition of money relations for reasons of social priority. In the end, automation will leave to money economy only the periphery of social life: domestic servants and valets, gambling, prostitution, etc. But in a socialist society which ensures a very high standard of living and security to all its citizens, and an all round revaluation of "labour", which will increasingly become intellectual labour, creative labour, who will want to undertake such forms of work? Socialist automation thus brings commodity economy to the brink of absurdity and will cause it to wither away.

This withering-away, begun in the sphere of distribution, will spread gradually into the sphere of production. Already in the era of transition from capitalism to socialism, socialisation of the major means of production and planning imply a more and more general substitution of money of account for fiduciary money in the circulation of means of production.*

Only the purchase of labour power and the purchase of raw materials from the non-state sector will involve the use of fiduciary money. But when the increase in the standard of living is accompanied by a reduction and no longer by an increase in individual wages, the circulation funds of enterprises also start to wither away. With the "industrialisation of agriculture", with the withering away first of private enterprise and then of co-operative enterprise in agriculture and distribution, this withering away spreads to relations between producing enterprises and these sectors. Successively, money thus retreats more and more from relations between enterprises, relations between enterprises and consumers, relations between enterprises and owners of labour-power, relations between enterprises and suppliers of raw materials. The withering away of money becomes general. Only "units of account" survive, so that an economy based

* See Chapter 15, "The Soviet Economy", section on "Economic categories in the U.S.S.R.".

on accounting in terms of hours of labour may govern the management of enterprises and of the economy taken as a whole.

Economic revolution and psychological revolution

So far we have considered only the economic consequences of the new mode of production, the withering-away of commodity economy and of money to which it will lead. We must now consider the social and psychological results, that is, the complete upheaval in relations between men, between individuals and society, as these have developed out of thousands of years of social experience derived from antagonism between classes of exploitation of man by man.

Free distribution of bread, milk and all other basic foodstuffs will bring about a psychological revolution without precedent in the history of mankind.* Every human being will henceforth be ensured his subsistence and that of his children, merely by virtue of being a member of human society. For the first time since man's appearance on earth, *the insecurity and instability of material existence will vanish,* and along with it the *fear* and frustration that this insecurity causes in all individuals, including, indirectly, those who belong to the ruling classes.[27]

It is this uncertainty about the morrow, this need to "assert oneself" in order to ensure one's survival in a frenzied struggle of all against all, that is at the basis of egoism and the desire for individual enrichment, ever since the beginning of capitalist society and even, to a certain extent, since the development of commodity economy. All the material and moral conditions for the withering away of egoism as a driving force in economic conduct will have vanished. True, individual ownership of consumer goods will doubtless expand to an unheard-of degree. But in face of the abundance of these goods, and the freedom of access to them, the *attachment* of men to ownership will likewise wither away. It is the adaptation of man to these new conditions of life that will create the basis for the "new man", socialist man, for whom human solidarity and co-operation will be as "natural" as is today the effort to succeed individually, at the expense of others. The brotherhood of man will cease to be a pious hope or a hypocritical slogan, to become a natural and everyday reality, upon which all social relations will increasingly be based.

Will an evolution along these lines be "contrary to human nature"? This is the argument invoked as a last resort against Marxism, against the prospect of a classless society. It is regularly put forward by those

* One needs to have the philistine wisdom of pragmatism to suppose, as does Professor W. Arthur Lewis, that the only [!] advantage of distribution according to need is that which follows from the supposition . . . that the government knows better than the individual what the latter ought to consume as a matter of priority![28]

who do not know this human nature, who base themselves on crude prejudices or suspicions in order to identify morals and customs *derived from a certain socio-economic context* with biological or anthropological characteristics alleged to be "unchangeable" in man. It is also invoked by those who endeavour to preserve at all costs a conception of man which is based on the idea of original sin and the impossibility of "redemption" on this earth.

But anthropology starts from the idea that that which is distinctive of man is precisely his *capacity for adaptation*, his capacity to create a second nature in the culture which forms the only framework in which he can live, as Professor A. Gehlen puts it.[28]*

These practically unlimited possibilities of adaptation and apprenticeship are the essential anthropological feature.[29] Human "nature" is what precisely enables man continually to rise above what is merely biological, to continually surpass himself.

The tendency to competition, to the struggle of all against all, to the assertion of the individual by crushing other individuals, is not at all something innate in man; it is itself the product of an "acculturisation", of an inheritance which is not biological but social, the product of particular social conditions. Competition is a tendency which is not "innate" but socially acquired.[30] Similarily, co-operation and solidarity can be systematically acquired and transmitted as a social heritage, as soon as the social milieu has been radically changed in this direction.

More than that—a disposition to co-operation, to solidarity, to love of one's neighbour corresponds far better to specific biological needs and basic anthropological features than a tendency to competition, conflict or oppression of others. Man is a social being not only in the socio-economic sense but also in the biological sense. Of all the higher mammals he is the one who is born in the weakest state, least protected and least capable of self-defence. Anthropo-biology regards man as an embryo prematurely born, who thereby possesses a physiological organisation making him capable of a much longer period of apprenticeship and a practically unlimited adaptability—thanks to *activity and socialisation* during a year of existence as an extra-uterine embryo. Phylogeny here confirms ontogeny, since today is generally agreed that these very processes of activation (the beginning of deliberate *praxis*) and *socialisation* are at the origin of the human species.[31]

Many studies have shown that the pace and harmony of the growth

* The case of Professor Gehlen, who, independently and without any knowledge of Marx, reconstituted a scientific anthropology based on *praxis* as the distinctive feature of man, is all the more remarkable because he carried out this reconstitution under the Nazi régime. The latter tried to direct anthropology towards the study of "unchangeable biological characteristics", "racial substances", and the like. Scientific truth showed itself stronger than these charlatan appeals, even though they had implacable state power behind them.

of babies depend directly on the amount and warmth of social relations in which they are involved, especially with grown-ups (the mother) but also with children of the same age. While this observation is self-evident as regards apprenticeship to *language*, the chief vehicle of mental growth, it is more surprising but not less true as regards general physiology. Repeated physical contact is one of the key factors in the normal growth of babies; the absence of such contact can give rise to many illnesses.

An investigation carried out in the U.S.A. in two institutions where material (food) and health conditions were identical, but where, in one case, each baby was constantly looked after by its mother, whereas, in the other, eight to twelve babies were looked after by a single overworked nurse, produced impressive results. At the beginning of the experiment the average "development quotient" was 24 points *higher* in the second institution than in the first. After a year, this average *fell* from 124 to 72 in the second institution, while it *rose* from 101 to 105 in the first. After two years, not a single baby had died in the first institution, whereas 37 per cent of those in the second were dead.[32]

Comparison between the physical, mental and psychic equilibrium of children in societies where climate and institutions foster co-operation and solidarity, and our own capitalist society, also gives edifying results. The studies made by Dr. James Clark Moloney among Okinawa children, those of Laura Thomson and Alice Joseph among Hopi children, and those of Dorothea Leighton and Clyde Kluckhohn among Navaho children all come to the same conclusions.[33] The great American anthropologist Ashley-Montagu thus sums up his own analysis of "human nature":

"Man's organic potentialities are so organised as to demand but one kind of satisfaction, a satisfaction which ministers to man's need for love, which registers love, which is given in terms of love—a satisfaction which is defined by the one word, *security*—secure in the affections of others and secure in one's affection for them . . . In order that he may function on the social plane the most fundamental of (man's) social needs must be satisfied in an emotionally adequate manner for personal security and equilibrium."[34]

Only socialist society can satisfy this need, for it alone can organise economic life, day-to-day life, in such a way as not to come into constant conflict with this need that men have for security and affection, but on the contrary to satisfy it permanently and naturally.

The idea that every human being—and *a fortiori* every living creature—is dominated by an "instinct of aggression", or a "destructive instinct" is not at all supported by present-day biology. Psychology increasingly rejects it.[35] Lauretta Bender has shown that hostility or aggression, far from being "innate" in the child, do not develop except as a result of certain deficiencies which in the last analysis depend on relations between the child and the milieu in which it is growing up.[36] Susan Isaacs found that "equality is the least common multiple to these conflicting fears (within a group of children)". Piaget points out that children react spontaneously to condemn any striking inequality as unfair.[37] After studying all the very rich, varied and contradictory data that exist on the question, Beaglehole arrives at the conclusion that there is no "property instinct" inborn in man, but at most a natural tendency for children to seize objects, which, depending on the social milieu and education, may or may not develop in the direction of *property*.[38] The list of witnesses could be extended indefinitely. The conclusion is overwhelming: there are no reasons to doubt that a radical change in the social milieu, in day-to-day social reality, resulting from a mode of distribution according to need, in an atmosphere of plenty, would quickly lead to the formation of a habit of co-operation and solidarity, abolishing competition and conflict as basic characteristics of human relations.[39]

It must be added that even in the animal kingdom, through conditioned reflexes, far-reaching alterations in the environment have the effect of abolishing "aggressive tendencies" which were once said to be "unchangeable". Experiments have shown that it is possible to get cats and rats to co-operate peacefully provided that one starts their apprenticeship soon enough and that the obtaining of food by both animals is based on co-operation.[40]* Experiments of the same kind have been successfully carried out with all classes of vertebrates, including fish. (Cf. Dr. Langois's experiments with perch which were presumed cannibalistic and which could be "trained" not to be.) And Professor Ashley-Montagu concludes:

> "Slight changes in the environment are sufficient to change the behaviour of creatures from a cannibalism that was erroneously thought to be instinctive to social behaviour that is co-operative."[42]

Will anyone dare to claim that man is incapable of adaptation and acquisition of different habits such as are within the scope of perch, mice and cats?

But will not this adaptation, this "habit of co-operation", cause an impoverishment of the human personality? Many philosophers and sociologists fear this. They speak of levelling down and grey uniformity, of the loss of qualities of mind and body which can develop only in a climate of competition and rigour. Dr. Alexis Carrel has devoted a best-seller to this theme, in which the mediocrity of his logic and his

* "Nothing is more natural than for the cat to 'love' the rat. And if one insists that the cat has an instinct to kill the rat, I must add that it has an instinct to love the rat too. In behaviour nature is what can be built in and not what is supposed to unfold from within."[41]

misanthropic, anti-humanist prejudices are to be observed in every chapter.[43]

Actually, these fears are based on confusion between individualism and development of the personality. Individualism is the sum of practices based on striving for material success *in conflict with other individuals*. In a socialist society, harmonious development of the personality does not depend on conflict with others, any more than abundance of goods at one's disposal depends on poverty among one's neighbours.

At one time it was claimed that the "virile qualities" could be developed only through war or in the military profession; who would dare to defend this view today, in the era of atomic weapons? Are not sport, driving, flying, climbing (up mountains and down caverns), and tomorrow the exploration of space and other planets, spheres in which physical courage and bravery can develop a thousand times more freely and broadly than in the battlefields of old? With this enormous difference that they will be accessible to *all* who may wish to engage in them, and not just to a small minority, that the practice of these occupations will no longer presuppose the oppression of the majority or even the killing of an adversary, but will be simultaneously open to everyone.

In reality it is the division of society into classes that has condemned the mass of mankind to the hopeless levelling of alienation. It is capitalist society that, by its mass production, has carried this tendency to extremes. It is capitalist society that produces millions of human beings who are all prisoners of the same dull fate, shut up within the same restricted horizon by the same wages, dressed in the same mass-produced clothes, reading the same sensational newspapers, relaxing in the same sports stadiums or in front of the same television programmes.*

By abolishing commodity production and opening the age of plenty, socialist society will give the signal for an extraordinary flowering of the human personality. Among hundreds of millions of individuals who today are indistinguishable in one grey mass, this personality will awaken, develop and flower in a thousand different directions, as yet unknown and unsuspected. Released from the wretched servitude of having to struggle for daily bread, human energy will be concentrated in art and science, in education and in physical and mental well-being. The place of competition between individuals for material existence will be taken by emulation in pursuit of aims of research, of beauty and truth. Aggressiveness will be sublimated into creative purposes.

Paradoxically, it is the full development of the *inequality* among

* Cf. Joseph Folliet, vice-president of the French Catholic organisation, Semaines Sociales. "Depersonalisation or, rather, the lack of personalisation, is . . . one of the features of our age."[44]

men, of the inequality of their aspirations and potentialities, the inequality of their personalities, that emerges as the aim of socialism. But this personal inequality will no longer mean a difference in economic power; it will no longer imply unequal rights or material privileges. It will be able to develop only in an atmosphere of *economic and social equality.*

The withering away of classes and of the state

The withering-away of commodity and money economy is, however, only one of the factors bringing about the disappearance of social inequality, classes and the state. The other factor is the considerable extension and creative use of leisure.

The ruling class or stratum of society has always possessed the privilege of leisure. This is the section which, freed from the burden of having to work for its living, from the burden of physically exhausting labour, from mechanical work, has been able to devote itself more or less completely to the accumulation of knowledge and the management of the economy and of society. The extension of such leisure will make it possible for an increasing number of citizens to undertake and carry out these functions. This is the *technical* means to ensuring the progressive withering-away of the state.

For nearly a century now the shortening of the working day has been a tremendous civilising factor, as Karl Marx pointed out when the ten-hour day was introduced.[45] It has provided the basis for everything worthwhile in present-day bourgeois democracy. Nevertheless, it is a contradictory phenomenon. The advantages gained by shortening the working day are largely offset by the lengthening of working life, the lengthening of the time spent in travelling to and from work, the intensification of physical effort (first for manual workers, then later, to an increasing extent, for office workers), and by the commercialisation of leisure.

Furthermore, the big step forward essentially remains the change from the ten- or twelve-hour day to the eight-hour day. The latter became general in modern-type industry in the advanced capitalist countries around 1920. Since then, there has been only a relatively slight shortening in the manual worker's working day, the forty-hour week existing only in a few countries, where, moreover, it is accompanied by the five-day week, the week of 45, 44 or 42 hours spread over five days implying even a lengthening of the working day.

We must take into account the considerably intensified pace of work since 1918, the nervous tension involved in operating equipment which is increasingly expensive and often dangerous, the often even greater tension experienced on the way to work, especially if the journey is made by mechanical transport, and also air-pollution and insufficiently sound-proofed housing, if we are to draw up *a compre-*

hensive balance-sheet of the physical, mental and nervous fatigue suffered by the worker of today, as compared with that of the worker of fifty years ago. Much evidence from doctors confirms that this fatigue is greater than it was, in spite of free week-ends and two or three weeks' annual holiday.

A careful study of Hamburg workers who spend their holiday in a wide variety of places has produced the conclusion that it is only during *the fourth week of the holiday* that rest (recuperation) becomes obvious and stable. Until then, change of place and initial fatigue cause reactions (some of them delayed) which make real recuperation impossible. The doctors who carried out this study were able to observe this "normalisation" from the fourth week onward, as regards breathing-rate, pulse, the amount of blood passing through the heart, the *tonus* of the arteries, the state of circulation in the upright position, blood pressure when resting and when working, and the weight of the body (loss of weight when this was excessive, gain when it was inadequate).[46]

What follows from this is that a large part of "free time" is not "leisure time" at all but "time spent in getting rid of physical and nervous fatigue". The German doctors distinguish between *Entmüdung* (loss of fatigue), *Entspannung* (relaxation) and *Erholung* in the strict sense (rest and the acquiring of new strength). The effect of holidays is largely neutralised because the worker takes his holiday when his organism is in such a state of fatigue that he is at first incapable of real, normal relaxation.

The commercialisation of leisure is adapted to this condition of things. It starts from a recognition that after an ordinary working day the average contemporary proletarian is incapable of an intellectual or physical effort. But on the pretext of providing him with "relaxation" or "diversion", commercialised leisure causes either an atrophy of critical capacity or a morbid and lasting excitement which ends by degrading and disintegrating his personality to some degree. All the condemnations of "leisure civilisation" nevertheless avoid the question: the ultimate cause of the degradation of leisure lies in the degradation of *work* and of *society*.*

* Cf. Fromm: "If a man works without genuine relatedness to what he is doing, if he buys and consumes commodities in an abstract and alienated way, how can he make use of his leisure time in an active and meaningful way? He always remains the passive and alienated consumer. He 'consumes' ball games, moving pictures, newspapers and magazines, books, lectures, natural scenery, social gatherings, in the same alienated and abstractified way in which he consumes the commodities he has bought . . . Actually, he is not free to enjoy 'his' leisure; his leisure-time consumption is determined by industry, as are the commodities he buys . . .; entertainment is an industry like any other . . . In any productive and spontaneous activity, something happens within myself while I am reading, looking at scenery, talking to

What is needed therefore, is a new and radical shortening of the time spent at work, in order to bring about the essential aim of socialism, which is that of the *self-management of producers and citizens.* Taking into account the present intensity of productive effort, the threshold at which the producer becomes materially capable of concerning himself currently, "habitually", with the management of the enterprise where he works, and with the state, is, apparently, *the half-day of work,* or a week of 20 or 24 hours, depending on whether working hours are fixed at five or at six hours a day. At the present rate of progress in productivity (an average of 5 per cent per year in the highly-industrialised countries), within the framework of a rationally planned economy freed from all military or parasitic burdens, and consciously directly towards the priority purpose of saving human labour, this objective could be attained before the end of the twentieth century. Even within the framework of capitalism, in the United States, the average length of the working week has fallen from 70 hours in 1850 and 60 in 1900 to 44 in 1940, 40 in 1950 and 37·5 in 1960, or a reduction of nearly 40 per cent in half a century, nearly four hours per decade.[48] On the basis of this same rate of decline the 24 hour week could be attained around 1990–2000 in a socialist society. The American economist George Soule comes to the same conclusion without leaving the framework of capitalist society—but without realising all the contradictions implicit in such a forecast.[49]

A more rapid reduction in the working day would undoubtedly be possible in a fully developed socialist society, but it would be held back by the raising of the school-leaving age (advancing from universal compulsory secondary education to universal compulsory higher education), and also by the lowering of the age of retirement. These changes would mean a more rational reduction in working hours *per human life* than a more rapid reduction in the working day—while productive life would continue to extend from sixteen to sixty-five.

A thoroughgoing reduction in the time spent at work would set the problem of leisure in an entirely different social context. Ultimately, of course, the "useful employment of leisure" is closely linked with the problem of *socialising the cost* of satisfying human needs, with the new mode of distribution. It is infinitely "cheaper" to satisfy the needs of 20 million workers with standardised television programmes made up of mass-produced films, or newspapers published in millions of copies, than to satisfy them with high-quality theatrical performances, a wide variety of books or the means of *producing* culture instead of merely *consuming* it. It costs much less to make a film for a

friends, etc. I am not the same after the experience as I was before. In the alienated form of pleasure nothing happens within me; I have consumed this or that; nothing is changed within myself, and all that is left are memories of what I have done."[47]

million spectators than to enable a million amateurs to make their own films. Galbraith attributes the increase in juvenile delinquency amid affluence to the inadequacy of public expenditure as compared with the excessive amount of private consumption of commercialised leisure.[50] But with the raising of citizens' standards of living, and the general development of social wealth, the useful employment of leisure will become increasingly a transformation of the citizen from being a passive object to being a conscious creative participant in a variety of cultural activities (sport, art, science, literature, technique, education, exploration, etc.) At the same time, participation in the management of the economy and the leadership of social life, which today involves only a tiny fraction of the leisure of the workers as a whole (except in the case of the active members of the workers' organisations), will become more and more important as a way of using "free time". It also will tend to become active and creative rather than passive, as at present ("attendance at meetings" through a feeling of duty, of obligation to others, because one must, or out of personal interest which is often of a very dubious kind).

It is often objected that the workers "do not want to manage their enterprises".[51] Usually, this refers either to attempts at "joint management" within a capitalist economy or to certain "marginal" experiments in the Eastern countries, that is, in both cases, to enterprises whose real fate is felt by the workers concerned to be settled elsewhere, and in a socio-economic context in which exhaustion and alienation on the part of the labour-force have not been reduced. If the worker declines to lose his precious hours of rest attending meetings on which *nothing decisive for his own fate* depends, that should not surprise us. It has been enough, however, in Yugoslavia, for the experience of self-management of enterprises to give the workers concerned the feeling that their activity in the sphere of management has a real and positive, effective influence on their standard of life, for an increasing proportion of the working masses to participate actively in the work of the workers' councils. The latter now control nearly a third of the financial resources of the enterprises.[52]*

Automation makes a big contribution to this process. It logically implies a tendency towards the elimination of the labourer, or even the skilled worker, from the production process. It tends to increase the labour-force employed before and after actual production (research and investigation work, administration and distribution), but to the extent that it takes place in a socialised, or already socialist, economy, *it does away with unskilled manual labour, reproducing only more and more highly skilled and "intellectual" labour*. It thus appears as

* Writers so various as the French sociologists Touraine and Dofny and the American psychologists Meier and Viteles recognise that workers do seek opportunities to determine decisions in the enterprise where they work.[53]

the great force working to abolish the difference between manual work and mental work, leaving only the latter in existence.

The industrialisation of agriculture, which has already gone very far in the United States and which is spreading in Western Europe, will be the last tendency of economic evolution connected with the withering-away of classes and of the state. It will cut down to a minimum the number of "countryfolk" engaged in "farm and field" work, and those who remain will be transformed more and more into agronomists, geotechnicians, and engineers in charge of automatic or semi-automatic agricultural machinery. The break-up of the big cities into homogeneous "new towns", each one self-sufficient, will do away with even the outward signs of the difference between "town" and "country" and create integrated areas embracing greenery, cultivation, housing, recreation and social life, and zones of industrial production.*

Radical reduction in the size of these areas will make it possible to abolish to an ever-increasing extent those *delegations of power* which continue to predominate in the first phases of the withering away of classes and the state. They will replace self-management by citizens on a rota basis, in *ad hoc* social organisations, by self-management of *free communes of producers and consumers*, in which everybody will take it in turn to carry out administrative work, in which the difference between "directors" and "directed" will be abolished, and a federation of which will eventually cover the whole world.

Is this a Utopia? What is essential is to see that these possibilities are all contained in an advance of productivity made the most of by an economic system based partly on the socialisation of the means of production and the creation of plenty in goods and services, and partly on the replacement of commodity economy by a mode of distribution which eliminates money and the desire for personal enrichment from the life of mankind.

Economic growth not a permanent aim

The problem of investment in a non-money economy has not yet been considered. To solve it, however, is not difficult, as soon as this economy really enjoys a situation of plenty. The producers who continue to be associated with enterprises in department I (producing capital goods) will have exactly the same rights as producers working in enterprises of department II (producing consumer goods) so far as drawing from the general wealth of society is concerned, even

* Already today, in the United States, the economists of the Department of Agriculture forecast that in 1975 country life will have been replaced by town life over a large area. The newspaper *Christian Science Monitor* wrote on 13th July, 1956 that: "The trend is making slowly and surely, but apparently inexorably, the whole spacious Far West into a sort of super-city, where people think in terms of convenience, television and fast traffic."[54]

though their labour does not increase directly, but only indirectly, the plentiful stock of wealth at the disposal of citizens. The products of their labour will not be "sold" on a "market" but will serve to renew the used-up stock of machinery, raw materials, auxiliary products, etc., which are needed for current production in departments I and II.

Will any "net" investment continue to exist over and above this gross investment, this simple reproduction*—an expanded reproduction of a socialist, non-monetary type? In other words, will the productive forces go on increasing indefinitely in a socialist society? It will be for the citizens of socialist society alone to answer this question, that is, it will really be a matter of free choice for them, and not of any "economic necessity". Under capitalism, and even in the transition period from capitalism to socialism, the idea of exercising "preference" as between the "marginal utility of net investment" and the "marginal utility of increased leisure" is basically absurd. Current consumption by producers, even when it is increasing, always falls short of felt needs; the length of the working day, even when it is being cut down, continues to be limited only by the state of physical and nervous fatigue beyond which output falls precipitously.

As against this, in a socialist society which ensures plenty in goods and services to its citizens, the possibility of a genuine choice between increased wealth and increased leisure will be given for the first time. This will be a real choice, in the sense that it will no longer depend on an economic need to meet pressing needs. The only economic demands which still exist will be that of renewing the stock of machinery (gross investment, depreciation) and that of ensuring an increase in the social product corresponding to the increase in population. As, however, it is to be hoped that socialist mankind will plan its population increase just as it will plan the economy, freedom of choice for the citizens will remain unimpaired.

In any case, economic growth is not an end in itself. The aim is to satisfy the needs of society, of the consumers, within the framework of optimum rational development of all human potentialities. Just as the *optimum* of consumption does not at all imply unlimited increase, the satisfaction of human needs does not in itself imply a continuous and unlimited expansion of the productive forces. When society possesses a stock of automatic machinery which is adequate to cover all current needs, including a reserve of multi-purpose machine-tools sufficient to cope with any emergency, it is probable that "economic growth" will be slowed down or even halted for a time.† A man who is

* See Chapter 10.

† Obviously anticipating, Professor Galbraith declares that now "it must be assumed that the importance of marginal increments of all production is low and declining. The effect of increasing affluence is to minimise the importance of economic goals. Production and productivity become less and less import-

completely free from all material and economic worries will have been born; political economy will have had its day, because economic calculation will be finished. The question of "profitability" or of "economy of labour-time" will have vanished as a criterion of wealth, and will be replaced by the mere criterion of leisure and its best use, as Marx foresaw in a prophecy of genius:

"The theft of other people's labour, which is the basis of present-day wealth, is a wretched basis when compared with this new basis of wealth created by large-scale industry itself. As soon as labour in its direct form ceases to be the principal source of wealth, labour-time ceases, and must cease to be the measure of wealth, and therefore exchange-value must cease to be the measure of use-value. The surplus labour of the masses ceases to be the condition for the development of general wealth, just as the leisure of a minority ceases to be the condition for the development of the general capacities of the human mind. Thus there collapses production based on exchange-value, and the immediate process of material production loses its sordid and contradictory form. The free development of individuals, not the shortening of necessary labour-time in order to create surplus labour [becomes the aim of production]; it is thus now a matter of reducing to the minimum the necessary labour of all society, so as to make possible the artistic, scientific, etc. education of individuals through the leisure and resources thus created . . .

". . . If the working masses themselves appropriate their surplus labour—and if the disposable time thereby ceases to have a contradictory existence—necessary labour time will be limited by the needs of the social individual, and the development of society's productive forces will, on the other hand, increase so rapidly that the leisure of all will increase despite the fact that production will be directed towards increasing the wealth of all. For real wealth is the developed productive power of all the individuals. Thus it will no longer be labour-time that will be the standard of wealth, but leisure."[57]

Or, more precisely: the criterion of wealth will become men's free, rational, creative use of free time, directed towards their own development as complete and harmonious personalities.

Alienated labour and free labour

When we spoke of the alienation of labour, this was in the sense of the loss of control by the producer, first over the product of his

ant."[55] But in a fully developed socialist society, this analysis certainly becomes relevant. Totally unfounded and unreasonable, however, is the dark prophecy made by Simone Weil: "No technique will ever relieve men of the necessity of continually adapting, by the sweat of their brow, the mechanical equipment they use."[56] Moreover, this view of the future shows clearly that socialism has nothing to fear from any "law of diminishing returns" which would end by making economic growth "too burdensome".

labour, and then over the conditions of his labour; thus, in the sense of labour "for somebody else", under the supervision and the orders of somebody else.* This alienation does not disappear automatically with the socialisation of the principal means of production. It disappears only when individuals feel *consciously and spontaneously* the owners of the products of their labour and the masters of their conditions of labour. It thus demands real self-management by the producers and a real abundance of goods and services sufficient to cover all essential needs and the essentials of every need. It corresponds to the disappearance of the wage relationship in this twofold sense: disappearance of the proletarian working for somebody else and disappearance of the proletarian working for a wage which is meanly and precisely determined.

There is, however, an alienation of labour which is anterior to labour "for somebody else", namely, the enslavement of man to the tyranny of the division of labour, and alienation of man from the various potentialities which are dormant within him but which cannot develop so long as he "has his trade", "practises his profession", "is looking for *a* job".

Nobody is *born* a street-sweeper, a welder, or a labourer. The great majority of "jobs" in the processes of production and distribution of goods and services do not correspond to any even slight "calling" on the part of those who carry them out. Vocational guidance endeavours at most to make use of *certain* callings in order to adapt man as rationally as possible to the needs of production; it is far from adapting economic life to the inborn needs of individuals.

"It [capitalist industry] crushes, stifles, breaks or distorts certain human inclinations and potentialities which the worker possesses, and in their stead creates certain definite aptitudes related to the job. Moreover, it tries to start this process as soon as possible, in the young child, by favouring pre-apprenticeship as against raising of the school-leaving age (or premature specialisation as against the common core of subjects in secondary education). These are at least the real, actual, practically observable conditions of the existence of 'aptitudes' in the present-day worker. We are justified in repeating . . .: that the particular way in which labour is allocated, its dispersal among the widest variety of trades and jobs, is and continues to be the work of society, of the particular economic framework of which the worker is at once subject and object, driving force and victim, a framework which stimulates, shapes and produces in the adolescent those 'aptitudes' which he needs, to the exclusion, if necessary, of truly human concerns; and which thereby, on the other hand, while usually exterminat-

* We intend to discuss in detail the problem of alienation in a book to appear shortly, entitled *The Formation of Karl Marx's Economic Ideas.*

ing the manifold potentialities of a man, creates the foundations and pre-conditions for the formation of narrower aptitudes conforming to new social criteria—which are, precisely, the sphere of vocational guidance."[58]

There is no better proof of the spontaneous revolt of man against the tyranny of the division of labour than the huge development of *amateur, do-it-yourself* activities which has occurred, in every possible form, throughout the Western world, in step with the relative shortening of the working day. In the nineteenth century—and, in wartime, even in the twentieth—the worker who busied himself with a vegetable garden had a "material interest" in what he was doing. But the thousands of employees of Western Electric who grow flowers, make wooden furniture and toys, and devote themselves to every imaginable human activity, from ornithology to weight-lifting (see the investigation referred to by David Riesman[59]) are living witnesses to the spontaneous desire to *offset* the uniformity of their jobs by differentiated, disinterested and free activities,* proof that they instinctively strive to rediscover their own personalities, which economic life based on the division of labour must inevitably mutilate.

It is not only because it is inadequately paid, exhausting to the muscles and nerves, monotonous and directed by others, that the labour of the great majority of workers in the big factories or offices of today is looked on by them as forced labour. They have this attitude because their work cannot in the long run *interest* them, since it develops *only one* side of human aptitude. Even the recent attempts to "adapt the machine to the man", to develop "flying squads" which constantly vary the work they do within a given enterprise, to "reintegrate" excessively specialised jobs by bringing together workers with several skills and multi-purpose machines (see Peter Drucker[62]) do not release the individual from the tyranny of the division of labour.

The latter is in itself contrary both to human nature and to the interests of the harmonious development of the individual. Professor Nadel points out that, while the average individual suffers a general decline in intelligence around the age of 30 to 35, this decline is much more marked "among individuals who have followed the same profession and never changed their environment, always staying in the same place, as against those who have moved about a great deal and have changed their occupations frequently".[63]

* "One of the comments most frequently heard from the workers about their hobbies is that they give them 'something they like doing', something 'in which they feel free', free above all to choose what they will do as well as the place and the moment at which they will do it", writes Georges Friedmann.[60] And the same writer quotes the following passage from Ferdnand Zweig's little book, *The British Worker*: "Hobbies probably express a man's whole personality more truly than work itself does, because he works through necessity, but follows his hobby through choice."[61]

The tyranny of the division of labour is felt, however, quite differently by workers who have to perform a basically mechanical and routine type of work, and by those who carry out professions which *may* correspond to a real vocation: artists, scholars, research workers, engineer-inventors, designers of machines, architects, and in general all who *create*, who share in the typically human joy of creation.

"Exemption from manual toil; escape from boredom and confining and severe routine; the chance to spend one's life in clean and physically comfortable surroundings; and some opportunity for applying one's thoughts to the day's work": this is how Galbraith analyses the advantages of those who no longer have the feeling that they are performing forced labour.[64] It is true that the word "creative" does not figure among the conditions listed here, but this is because Galbraith, with a curious mixture of lucidity and apologetic banality, includes in this category of persons not only the professions mentioned above but also . . . teachers, heads of large companies (*sic*), advertising experts, etc., who, though they are more highly paid, are no less slaves of the division of labour than the workers are, and are basically subjected to the same alienating disadvantages.[66]*

True, the "intellectual" of today is far from being a harmonious or happy person, even if he has been able to follow his vocation and is free of all material servitude such as would distort or coerce his spirit or his consciousness—conditions rarely fulfilled in capitalist society, any more than in a bureaucratic transitional society. He is still subject to the tyranny of an increasing degree of specialisation.† As a rule he suffers from an unbalanced way of life, in which physical exercise and nervous equilibrium are not cultivated as conscious purposes, as they should be. Too often cut off from practical life, production or social activities, the present-day intellectual also suffers from another kind of alienation, alienation from *praxis* and from his social nature. "The contrast between the potential and the actual, this historical and social contrast, is transferred . . . to the 'inner life' of the most gifted individuals, where it becomes a more or less conscious conflict between

* Galbraith is nevertheless quite right when he notes that: "The identity of all classes of labour is one thing on which capitalist and communist [the author should have written: Stalinist] doctrine wholly agree. The president of the corporation is pleased to think that his handsomely appointed office is the scene of the same kind of toil as the assembly line, and that only the greater demands in talent and intensity justify his wage differential. The Communist officeholder cannot afford to have it supposed that his labour differs in any significant respect from that of the comrade at the lathe . . ."[65]

† Stimulated by the desire for gain and favoured by the whole economic and social climate of present-day society, "disintegrated" by a division of labour which has been carried to extremes, this excessive specialisation may moreover give rise to a particular form of alienation and boredom, even among scientists or artists who have been able to do what they want to do.[67]

theory and practice, between dream and reality; and this conflict is a cause of the misgiving and anguish, like every contradiction which is unresolved or seems beyond resolution."[68]

Nevertheless, these "most gifted persons" of today, in so far as they have succeeded in devoting their lives to a creative activity which basically corresponds to their inner needs, come closest to what the socialist man of tomorrow could be, when freed from the division of labour and the distinction between manual and mental labour.

The generalisation of university education—which moderately optimistic observers foresee for the end of the twentieth century (Soule, Deutscher);[69] the abolition of all routine work; the liberation of research and thought from all material slavery; the active participation of men in the management of the economy and of society; the abolition of the barrier between theory and practice; the socialist humanism which puts human solidarity and love of one's neighbour first among the motives of human action; all these elements of the withering away of the social division of labour are indispensable contributions to the birth of a new man, for which the economic conditions of plenty and socialism furnish only the general possibility, and for which conscious, pedagogical, therapeutic activity on the part of men, in the highest sense, will be the indispensable midwife.*

Man's limitations?

But will this creative human activity, integrating theory and practice, leaving all mechanical and routine work to machines, passing from research to production and from the painter's studio to the site where a new town is being built amid the woods—will it still be "labour"? This basic category of Maxist sociology and economics must in its turn be subjected to a critical analysis.

Labour is the fundamental characteristic of man. It is through labour that the human race appropriates its necessary means of life; it is labour which is at once the primary reason for, the product of and the cement of social relationships. Man does not become a social being in the anthropological sense of the word, does not acquire his normal physiological equipment, without a phase of "active socialisation" which extends from his birth until puberty, if not until his physical and intellectual maturity.

But when the *need* to work in order to produce the means of life has gone, because machines by themselves carry out this work, what remains of labour as man's fundamental characteristic? Anthropology defines the concept of labour. What is, in fact, characteristic of man

* In this sense, Albert Lauterbach is wrong when he states that, for the Marxists, individuals will automatically achieve psychical equilibrium as soon as social and economic institutions have been changed.[70]

is *praxis*, action: "Man is a creature so constituted physically that he can survive only by acting."[71]

Labour in the historical sense of the word, labour as it has been practised up to now by suffering and miserable mankind, condemned to earn their bread in the sweat of their brows, is only the most wretched, the most "inhuman", the most "animal" form of human *praxis*. Just as for Frederick Engels the entire history of class-divided humanity is only the pre-history of mankind, so labour in its traditional form is only the prehistoric form of *creative, all-sided human praxis, which no longer produces things but harmoniously developed human personalities*. After the withering away of the commodity, of value, money, classes, the state and the social division of labour, fully-developed socialist society will bring about the *withering-away of labour* in the traditional sense of the word.*

The final purpose of socialism cannot be the humanisation of labour, any more than it can be the improvement of wages or of the wage relationship; there are only transitional stages, expedients and palliatives. A modern factory will never constitute a "normal" or "human" setting for human life, no matter how much the working day is shortened or the place and its machinery are adapted to man's needs. The process of the humanisation of man will not be completed until labour has withered away and given place to creative *praxis* which is solely directed to the creation of human beings of all-round development.†

For a long time, *homo faber*, man as producer of the instruments of labour, has been put before us as the real creator of civilisation and of human culture. Recently, writers have tried to show that science, and even philosophy itself, has emerged progressively from productive labour in the strict sense, constantly nourishing itself from practice.[76] The Dutch historian Huizinga has, however, sharply opposed this tradition, with his contrary conception, of *homo ludens*, "man at play", as the real creator of culture.[77]

Marxism, brilliantly confirmed by all present-day anthropology, and to a large extent even by Freudian psychology, enables us to integrate these two currents of thought, each of which reflects a fundamental aspect of human history. At the start, man was both *faber* and *ludens*.‡

*In *The German Ideology* Marx and Engels speak of "the end of labour", of its "transformation into self-activity" (*Selbstbetätigung*).[72] See also, in the same work, the clear contrast between "free labour" and "abolition of labour".[73]

† Speaking of creative activities, Max Kaplan writes: "Now man does not weave the basket or play the tune or build the table: the basket is now part of him, he is the tune, the table has not been made but *he has been made* . . . in the act of creating the table."[74] Cf. Marx, in *Grundrisse*.[75]

‡ "A [Bemba] man says he has to cut trees between such-and-such climatic changes, but not that he has so many hours of work to get through, and daily work, which has become from habit [?] almost a physiological necessity to many Europeans, only occurs at certain times of the year."[78]

Scientific and artistic techniques progressively separated off from production techniques; but, with their specialisation, a social division of labour became indispensable for an initial phase of further progress. *Homo faber*, banished to outer darkness, has neither the resources nor the leisure for play, free creation, the spontaneous and disinterested exercise of his faculities, which is the specific aspect of human *praxis*.[79] *Homo ludens* has become, more and more, man of the privileged classes, that is, of the possessing classes and those dependent on them.

But thereby he has in turn suffered a special kind of alienation: his play becomes increasing *sad play*, and continues so even during the great centuries of social optimism (for instance, the sixteenth and nineteenth centuries). Freed from the constraint of routine work, reintegrated in the collective community, socialist man will once again become both *faber* and *ludens*, increasingly *ludens* and at the same time *faber*. Already today, attempts are being made to introduce more and more "play" into certain forms of work, and more and more "serious work" into play.[80] The abolition of labour in the traditional sense of the word implies at the same time a new flowering of the chief productive force, the creative energy of man himself. Material disinterestedness is crowned by the creative spontaneity which brings together in the same eternal youth the playfulness of children, the enthusiasm of the artist, and the "*eureka*" of the scientist.

For the bourgeoisie, property means freedom. In an "atomised" society of commodity owners, this definition is broadly true; only a sufficient amount of property releases a man from the slavery of selling his labour-power to get the means of existence, from this condemnation to forced labour. This is why bourgeois philanthropists, no less than demagogues, ceaselessly call for the impossible "deproletarisation" of the proletariat through the "diffusion of property".

Vulgar Marxists have taken out of its context a famous phrase of Hegel's, quoted by Engels, according to which freedom is merely "the recognition of necessity."[81] They interpret it in the sense that socialist man will be the subject to the same "iron economic laws" as capitalist man with the sole difference that, having become conscious of these laws, he will endeavour to "use them to his advantage".*

This positivist variant of Marxism has nothing in common with the real humanist tradition of Marxist and Engels, with the boldness of their analysis and the profoundity of their vision of the future. Marx and Engels both repeated more than once that the realm of freedom

* The Soviet philosopher I. N Davidov has recently tried to provide a much richer variant of this conception by basing himself on the "innate needs of man" which freedom must *necessarily satisfy*.[82]

begins *where necessity ends*.* Even in a socialist society, factory work would continue to be a *sad necessity*, which was felt as such; it is in one's leisure hours that real freedom unfolds itself. The more that labour in the traditional sense of the word withers away, the more it is replaced by a creative *praxis* of all-round-developed and socially integrated personalities. The more man frees himself from his needs by satisfying them, the more does "the realm of necessity give place to the realm of freedom".

Human freedom is not a "freely accepted" constraint, nor is it a mass of instinctive and disorderly activities such as would degrade the individual. It is a self-realisation of man which is an eternal becoming and an eternal surpassing, a continual enrichment of everything human, an all-round development of all facets of humanity. It is neither absolute rest nor "perfect happiness", but, after thousands of years of conflicts unworthy of man, the beginning of the real "human drama". It is a hymn sung to the glory of man by men aware of their limitations who draw from this awareness the courage to overcome them. To the man of today it seems impossible to be both doctor and architect, machine-builder and atom-smasher. But who can speak of limitations that man will *never* be able to break through, man who is stretching out his arms towards the stars, who is on the brink of producing life in test-tubes, and who tomorrow will embrace the entire family of mankind in a spirit of universal brotherhood?

* For instance, Engels at the end of *Socialism—Utopian and Scientific*. Also Marx: "In fact, the realm of freedom actually begins only where labour which is determined by necessity and mundane considerations ceases; thus in the very nature of things it lies beyond the sphere of actual material production."[83] Cf. David Riesman: "We should consider the possibility that, if the other-directed man is to be made free, it will not be by work but by play."[84]

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CHAPTER EIGHTEEN

THE ORIGIN, RISE AND WITHERING AWAY OF POLITICAL ECONOMY

Economic activity and ideology

THE poorer a human community is, the more does the struggle for daily bread dominate its everyday life and the more do the requirements of this struggle influence all its social activities, including those which are not at all directly "economic". "In primitive communities, for the religious person as for the non-religious, spirits and gods mean nothing apart from the relations between them, on the one hand, and, on the other, those values which are basic for human beings, and economic realities."[1] Man is distinguished from other species by the fact that he appropriates his means of life *socially*. Social appropriation means appropriation through *conscious* activities, activities about which men "form ideas" and ask themselves questions. It is therefore not surprising that, in the most primitive societies, magico-ritual activities are essentially *functional*, having the direct or indirect purpose of improving or regulating the supply of food.* Numberless myths, legends, proverbs and tales, passed on by oral tradition, bear witness to this fact. Language itself is shaped by it. Among poor tribesmen, as in parts of China, it is the practice to greet people by asking them: "Have you eaten well?"[3]

The various expressions of an animistic, ritual and magical character which are assumed by primitive aspirations towards greater well-being, and especially towards greater security of life, cannot be interpreted as *ideologies*. Ideology springs from conflict between men and not from conflict between men and nature. Primitive thought may supply a naïvely animistic envelope to the natural forces which it discovers empirically, and it may believe that the laws governing natural phenomena have their source in a mysterious "life force".† It does not, how-

* "In this area [that occupied by the Bemba tribe, in Northern Rhodesia], as in the Trobriand islands [in the Pacific], the rites seem to centre round those economic activities which give rise to the most doubts, fears or anticipations among the people, itself a proof of the need they fulfil for each individual."[2]

† "The copper-smelters and smiths will think that they cannot melt the ore and thus change the nature of the material being worked, without being obliged to call upon a higher power which is able to dominate the life-force of the 'earth' which they thus claim to transform into metal. The hunter, too, will be sure that it is through a higher life-force that he has been ingenious enough to construct his traps and weapons efficiently and use them skilfully in struggle with his quarry."[4]

ever, seek to *conceal* the facts, but rather to make use of them for practical purposes. It is above all pragmatic in its approach.

It is only when the division of society into classes begins, when the social division of labour separates mental labour from manual labour, and the need to justify exploitation appears, that ideology in the sense of "bad conscience" can arise. The old mentality, based on primitive clan communism, slowly dissolves. But its vitality remains very great, and thousands of years have to pass before the last traces of these feelings of elementary solidarity disappear. It is, moreover, by utilising these feelings of solidarity and co-operative discipline within a communistic society that the first ideologists in the service of the ruling classes endeavour to persuade the working classes to accept their situation of permanent inferiority. This is the "organic" conception of society, which is worked out in order to justify a social division of labour identified with the division of society into rich and poor, privileged persons and producers, those who give orders and those who obey them.*

Thus, in the fourth century B.C., Menenius Agrippa explained to the producers that it was quite in order for them to work so as to maintain the idle rich, since the latter fulfilled in relation to them the same function as the stomach in relation to the arms.[6] About the same time without knowing of the work of his Roman colleague, the Chinese philosopher Mang-Tsze (Mencius, *c.* 380–290 B.C.) was justifying in exactly the same way the social division of labour between mental and manual workers:

"There are mental workers and manual workers. The mental workers keep order [!] among the others; the manual workers are kept in order. Those who are kept in order by the others feed the latter [yes, indeed!]. Those who keep the others in order are fed by them. Therein lies the duty of everyone on earth."[7]

Some few dozen years earlier, in his *Republic (Politeia)*, Plato had compared the philosophers to the head, the guardians to the breast, and the rest of the people to the lower parts of the social organisms. Already in the eighth century B.C., however, the song of Purusha, in the Hindu literature of the Brahminical era, made the four classes of society spring from four different parts of the body of the god Purusha: the priests are born from his head, the warrior nobles from his arms, the peasants from his thighs and the slaves from his feet.[8] The apologetic purpose of this "idea" is obvious. It is hard to deny that

* A curious echo of this "organic" conception of society is to be found in the writings of certain modern critics of economic liberalism, such as Karl Polanyi. The latter treats even slaveowning society as a society which "integrated the individual into society" and makes no distinction between the way a free member of village community saw his position and the way his position appeared to a slave or a serf.[5]

it was worked out in order to justify a social order which seemed unfair to the mass of the people.

The dawn of economic thought

If ideology was born with the division of society into classes, the dawn of economic thought—of "political economy"—coincides with the development of a society based on petty commodity production. The "organic" conception of society is doubtless needed to justify social exploitation. But the latter remains transparent. The possessing classes appropriate the social surplus product directly, in the form of use-values. There is no mystery to be penetrated, no veil to be rent, and so no "law" to be discovered.

When commodity production, production for a more or less unknown market, and money economy appear, when sudden fluctuations in prices cause thousands of producers to fall into debt and to be ruined, when money dissolves the ancient social relationships and separates the cultivator from his forefathers' land, the first *problems* of an economic kind arise. Only then are the first attempts made to find an answer to these problems. It was in China and in Greece, where petty commodity production and money economy seem to have first arisen, that the dawn of man's economic thinking occurred.

The questions which preoccupied the first economic thinkers related essentially to *economic and social instability*. The Chinese thinkers, no less than Plato and Aristotle, strove to find the reasons for this instability and how to cure it. Neither the Chinese nor the Greeks regarded wealth, or enrichment, as the worthiest purpose or most useful activity of the citizen. The equilibrium of the community (the city, the state) was put higher than the enrichment of (certain) individuals. These ideas faithfully reflect the level of social development reached by ancient Greece and by China, in which trade and credit occupied a secondary position, with the crafts and agriculture still the fundamental economic activities and with social stability seeming to be the condition for everyone's well-being (any social instability disorganised irrigation and caused famine in China; civil wars and wars between cities destroyed the prosperity of the Greek *polis*).

But these first thinkers found themselves faced by a paradoxical situation. On the one hand, agriculture was the foundation of society, the peasant the most "useful" citizen. On the other, money seemed to be more powerful than the peasant; commodity economy was undermining economic stability.*

Obsessed by this problem, the first Chinese economic chroniclers gave their works the title: *Food and Money*.[9] Stefan Balazs does not hesitate to translate this formula as "use values and exchange values".[10] Even if this is anachronistic, it cannot be denied that the

* An echo of the same preoccupations is to be found in the Old Testament.

old Chinese writers, no less than Plato and Aristotle, did distinguish between exchange value and use value.

Almost at the same time, but independently of each other, Plato and Mang-Tsze deduced the need for commodity production and money economy from the division of labour and the advantages offered by the latter for the satisfaction of human needs.[11] They both upheld the necessity for exchange, and thereby justified the existence of merchants, as being a sort of necessary evil. But both of them remained puzzled by the exact laws governing exchange.

It is significant that the Greek philosophers were more concerned with penetrating *the nature of exchange value*, whereas the Chinese were above all anxious to discover the laws governing *price fluctuations*. There is the outline of a "quantity theory of money" in the *Histories of Nations*, in which Duke Mu, of Chan, declares that if corn is too dear then more copper money must be put into circulation, so that prices (of other goods) may fall; when corn is cheap, and is being used as medium of exchange, prices (of other goods) rise too much and it is necessary again to issue copper money in order to bring these prices down.[12] These theories are copied from one economic chronicle to another, and are to be found in both the *Han-Chou* and the *Suei-Chou*. We likewise find in all these chronicles appeals for a policy of price control, so as to protect the peasant from exploitation by merchants and by dishonest officials.[13] This is the Confucian conception of money and of the state.

It was Aristotle who most clearly defined the dual nature of the commodity, as being both a use value and an exchange value.[14] This distinction was passed on to the Middle Ages, first in the legal theory of Islam and then in the thought of the Christian scholastics. In discussions among Moslem scholars about the problem of income tax *(zakat)* a distinction is made between a tax which falls on land and cattle, confining itself to their *physical nature* (their use value) and which is therefore determined by law once and for all, and a tax which falls on commodities, which are taxed in accordance with their *commercial value* (that is, their exchange value), a tax which thus varies according to the value of these commodities. This distinction clearly shows the mark of a society which combines the village community (in which land and cattle remain inalienable) with petty commodity production in the towns. When, at the highest point of the development of the Islamic Empire, cattle and land in their turn became "articles of trade", this led to grave complications in the tax system.[15]

The origins of the labour theory of value

It is the appearance of the commodity that disturbs the age-old routine of primitive economy. What is the exchange value of commodities? How can it be determined?

Mang-Tsze records that a certain Hsu-Hsung thought that it could be deduced from the purely physical properties of commodities: a certain length of linen material should be exchanged for a certain quantity of silk stuffs, a certain amount of wheat for a certain amount of millet, and so on.[16] He apparently rejected this theory, and, with other Chinese writers (e.g. Lu Chih, in the eighth century A.D.) soon came to the view that *Labour was the only source of value.*[17] But it was only *agricultural labour* he meant, so that these Chinese writers can be truly regarded as the ancestors of the physiocratic school.

Plato came to the brink of a labour theory of value, in a famous passage in the *Republic*:

"Is each one of them [the minimum of four or five men of different trades needed for a state] to bring the product of his work into a common stock? Should our one farmer, for example, provide food enough for four people, and spend the whole of his working time in producing corn, so as to share with the rest; or should he take no notice of them and spend only a quarter of his time on growing just enough corn for himself, and divide the other three-quarters between building his house, weaving his clothes, and making his shoes, so as to save the trouble of sharing with others and attend himself to all his own concerns?"[18]

This passage is remarkable not only because the writer senses intuitively the real nature of the exchange value of commodities, but also because he adopts the only approach that enables one to get to the point: analysis of exchange value *as a social phenomenon*, as the "cement" of a society based on exchange, marked by the division of labour which obliges everyone to work for everyone else, and which thus requires an objective criterion of measurement to which these different kinds of social employment can be reduced in order to make them comparable.

But it is not surprising that the thinkers of ancient Greece were unable to get any further than this point reached by Plato, and to formulate a real labour theory of value. The reason was that in Greece productive labour was essentially slave labour, and for this reason despised.* This disgrace of slavery weighed heavily on the productive application of technical inventions.[19] It weighed especially heavily on ideology, preventing recognition of labour as the only source of exchange value. Thus, Aristotle, in his *Nicomachaean Ethics*,[20] took up Plato's idea according to which exchange arises from the division of labour, and added to it the idea of justice determined by *proportionality*. Exchange is just when it is proportional, that is, when gains and losses are equal on both sides. But proportionality must be measur-

* In a few places, however, in Aristotle's *Politics* and in his *Nicomachaean Ethics*, traces are to be found of a more objective idea of the place of labour in social life and exchange.

able; it necessitates a standard, a common yardstick. According to Aristotle, this is to be found in need *(indigentia)*. If person *A* exchanges article *a* for article *b*, which belongs to person *B*, the satisfaction of A's need must stand to the satisfaction of B's as the value of *a* stands to the value of *b*. With this theory of value, infant political economy had got into a blind alley, since the study of needs takes one into psychology and not into the analysis of socio-economic phenomena.

The petty commodity production of antiquity experienced its freest expansion in the Greek society of the sixth to third centuries B.C. The development of critical thought attained in this period was also not subsequently surpassed. The break-up of ancient society was accompanied by a break-up of theoretical thought. Only when, during the Middle Ages, petty commodity production underwent a fresh expansion in the Italian, Flemish, French, English and German communes did nascent political economy take up some of the threads left by Plato and Aristotle. Through the medium of Arab and Jewish commentators these writers began to be known and studied from the twelfth to thirteenth centuries onward. Soon, the more advanced economic reality of this period compelled the scholastic theologians to go beyond Aristotle's idea of value measured by the intensity of the needs it satisfies.

It was the rationalistic renaissance of the thirteenth century, especially in Sorbonne circles, that stimulated this critical revision.[21]* Little-known commentators and preachers like Robert Grosseteste seem to have prepared this advance. But it was Albertus Magnus and Thomas Aquinas who were actually to make economic science take this big step forward.

Taking up Aristotle's demonstration that exchange is based on proportionality between needs and values, Albertus defined need not as the *measure* but as the *cause* of this proportionality.[23] And he went on to take up, partially, Plato's ideas of "time and trouble", giving it the more exact form of "labour and charges" *(labor et expensae)*.†

When an architect exchanges a house he has designed for shoes produced by a cobbler "a proportion must be achieved (in the value of the two commodities) such that to the same extent that the architect has expended *more labour and charges* in his work than the cobbler, he receives likewise more shoes and money than he gives in houses".[24]

However, Albertus Magnus does not work out a pure labour theory

* Neither Albertus Magnus nor Thomas Aquinas *explicitly* reduced the formula "labour and charges" to labour alone.

† See, on this rationalist and materialist renaissance, its socio-economic origins and its ideological antecedents, Ernst Bloch, *Avicenna und die Aristotelische Linke*.[22]

of value; the intensity of need, which first appears as a condition of exchange-value, later reappears as a measure of value.

With Thomas Aquinas we find essentially the same approach, but with greater clarity and precision in the exposition. If there is no proportionate exchange, the city breaks down, since it is based on the division of labour. And exchange is not proportionate when there is no proportionality between everyone's *productive effort (quod actio unius artificio maior est quam actio alterius)*.[25] And in this case, society falls back into a state of slavery—that is, the rendering of unpaid labour, like that of a slave! Aquinas here shows great clarity of thought, since petty commodity production does indeed presuppose *equal exchanges between free owners*, something contrary to the forced labour of serfs or slaves. He advances right to the brink of a labour theory of value formulated in a modern way when he presents Aristotle's quadrilateral of "proportions of exchange" in this way:

"Let us assume that at one corner, A, there are two books, and at another, B, there is one book; and that at C there is a person, Sortis, for example, who has worked for two days, and at D there is Plato, who has worked for one day. Then the ratio of A to B should be the same as that of C to D (that is, A should have twice the value of B)."[26]

At this point, labour time, the amount of labour contributed, is thus presented as the measure of value. Later, Aquinas seems to indicate a retreat to a notion of value measured by need. But his formulations are not very clear (see Section 9 of Book Five) and remain, more than in the case of Albertus Magnus, close to the idea of need (use-value) as *a condition rather than a measure* of exchange-value. It even seems that when he departs from the labour theory of value it is to examine the market prices rather than the value of commodities.[27]

Much has been written about this bold step forward in economic thought made by Thomas Aquinas. Some have expressed doubt that there was any step forward, themselves mixing up use value with exchange value. Others have claimed that this was a mere "youthful error", and that in the *Summa Theologica* Aquinas returns to a purely Aristotelian conception, that is, a subjectivist one, of exchange value.[28]* Schumpeter himself, in his *History of Economic Analysis*, seems to have greatly underestimated Aquinas's contribution. Other writers, however, present him as the real forerunner of Ricardo, if not of Karl Marx himself (e.g. Selma Hagenauer and Edmund Schreiber).

How are we to explain both the progress and the limitations in the economic thinking of Thomas Aquinas? They seem to be due essentially to the objective reality of his age and the specific ideological needs to which Aquinas tried to find solutions. *International trade and trade*

* It appears however, that Aquinas's commentaries on the *Nicomachaean Ethics* are *later* than the *Summa*, so that there really was an *advance* in his thinking on economic questions.[29]

in money had invaded a society characterised by natural economy, on the one hand, and a considerable development of petty commodity production, on the other. Alongside thousands of small producers who *sold* (their products) *in order to buy* (their means of life) were appearing merchants, usurers, and bankers who *bought* (commodities, rents, etc.) *in order to sell at a profit*.

Thomas, being a theologian, had to reconcile economic reality with the teaching of the Church. He had to draw a line between what is "just" and what is not. He could not justify usury, but he could not condemn trade, either. His economic ideology thus reflects the contradictions of a doctrine which emerged essentially from the period in which the Church was a feudal power within a natural economy, and which was then adapted to a new era, based on money economy, into which the Church was trying to integrate itself while striving to safeguard at one and the same time both its creed and its possessions. Thomas condemns the trader who *ad hoc emit ut carius vendat* ("who buys in order to sell dearer"),[30] but justifies the trader who transports goods, or stores them, and makes a legitimate profit *quasi stipendium laboris* ("almost like wages for work performed").

Starting from the tradition of Aristotle, which was based on contempt for slave labour, Albertus Magnus and Thomas Aquinas endeavour to reconcile with this the teaching of the Fathers of the Church, who honour the merits of labour. But it is above all *in order to justify merchant's profit* that they declare that the trader embodies in commodities a value proportionate to his "labour and charges", a theory which had already been upheld by the Talmud[31] and which was gradually taken up by the scholastics of the thirteenth and fourteenth centuries.* Eventually, Thomas seems to have come close to the labour theory of value in order to defend the established order rather than to criticise the capitalism which was coming to birth in his native country.

While other scholastic thinkers, notably Duns Scotus, took up and developed the theory of exchange value based on "labour and charges" *(labor et expensae)*, it was in another society based on petty commodity production, in the Islamic Empire, that a great inheritor of the Aristotelian tradition, Abd-al-Rahman-Ibn-Khaldun (1332–1406,) took up these same ideas and made them more precise, embodying them moreover in a conception of social history which comes close—four and a half centures before Marx!—to historical materialism.

Before Adam Smith, Ibn-Khaldun declares that the wealth of

* It was set forth already by the authors of the *Decretum*, at the beginning of the twelfth century.[32] They appear to have introduced this idea in order to counterpose to trade, condemned altogether, the urban crafts, which they justified. It is worth noting the significant difference in these writers' preoccupations, as compared with those of Albertus and Thomas.

nations lies in the "products of arts and crafts" (commodities).[33] He extends this idea: if the price of wheat is higher in Spain than in North Africa,[34] this is because a longer period of labour and higher costs of cultivation have been needed in order to produce it, and not because foodstuffs are scarcer there.[35] Here, in contrast to Albertus Magnus, Thomas Aquinas, Duns Scotus and the other scholastics, it is no longer the determination of the *just price* but the *explanation of current prices that is sought*. The theory of value is no longer based on ethical criteria but on a synthesis of empirical data and theoretical analysis. For Ibn-Khaldun does not fail to formulate his theory of value in a general form:

> "Everything that constitutes acquisition and funds (of goods) and wealth proceeds only from man's labour . . . Without labour, these occupations (crafts, agriculture, mining) would yield no profit or advantage."[36]

Following this idea through, Ibn-Khaldun glimpses the reduction of skilled labour to simple labour and even has an intuition of a theory of surplus value. He writes, indeed, that the great profits of the "mighty of this earth" represent appropriation of the unpaid labour or gifts [tribute!] of others.[37]

In a society based on petty commodity production Ibn-Khaldun figures as a forerunner. A fresh and deep-going upheaval in the mode of production, in economic *reality*, was needed before man could become *conscious* of all the contradictions inherent in the production of commodities, and in the commodity itself, before political economy could really be born as a science.

The development of the labour theory of value

Between the fourteenth and seventeenth centuries the theory of value was to mark time, or even to retreat, as compared with the progress achieved by Albertus Magnus, Thomas Aquinas, Duns Scotus and Ibn-Khaldun. But the embryonic political economy of that period did not stop developing. This development took some criss-cross paths before covering the short distance separating Ibn-Khaldun from William Petty. Owing to this detour, it became enriched with many new problems, it came closely to grips with the whole of the relevant matter, and took cognizance of a mass of empirical data which Ibn-Khaldun and Thomas Aquinas lacked, not to mention Plato and Aristotle.

From the last of the scholastics through the mercantilists and the physiocrats, it was the problem of the *nature of wealth* that preoccupied economists.*

They were led to this problem through studying the currency prob-

* The first economists who made systematic statements were public administrators who presented something like "reports on the state of the nation".[38]

lems and disturbances caused by the debasement of the currency practised from the fourteenth century onward, on a large scale, by various European rulers. The influx of precious metals in the sixteenth century and then the price revolution which it caused gave rise to a number of questions concerning the relationship between a nation's wealth, its trade and production, the stock of precious metals in its possession and its trade balance, the ratio between public expenditure and general prosperity, etc. Many mercantilist writings have a remarkably modern ring, as Keynes observed,[39] less by their methods of investigation than by the *clearly pragmatic nature* of their analyses and conclusions.

To the question "what makes the wealth of nations?" the mercantilists reply, successively: population; influx of precious metals (Serra), that is, a credit balance of payments; a favourable trade balance; trade and manufactures; the fertility of the soil.[40] The example of Spain which, owing to the deficit in its balance of payments, was eventually impoverished by its colonial conquests, despite the enormous treasure of precious metals which flowed in every year; the example of the Netherlands which, thanks to their "trade" and their "industry" soon became the richest nation in Europe, gave inspiration and confirmation to the mercantilist theories. Most of the scholastics of the fifteenth and sixteenth centuries—especially the Spaniards, such as Molina—specialised in justifying trade, and their theories of "the just price", and of interest which is justified in so far as the trader "works", link up with the mercantilists who acknowledge that the "current price" is the "just price". The "current price" depends either on the amount of money (Locke), or on the relation between supply and demand (Barbon), or on need, or on all these factors taken together. The distinction between *current price* and *just price* is already implicit in Thomas Aquinas's *Summa Theologica*, in which the "current price" *(pretium datum)*, as against the "just price", is determined by *copiae et inopiae* (plenty or scarcity, that is, supply and demand).[41] It should be added that several mercantilists, such as the Spaniard Pedro Fernandez Navarrete, and even a pre-mercantilist like the Neapolitan Carafa, formulated ideas which come close to the labour theory of value.[42]

It is unjust to the mercantilists to consider them mainly in relation to the protectionist measures which they inspired and justified in order to ensure a favourable balance of payments for Britain. Actually, the mercantilists were reacting against the conservative tendency of Jean Bodin or Stafford, who wanted to go back to the strict regulations of the Middle Ages in order to stop the damage being done by the price-revolution of the sixteenth century. Typical representatives of mercantilism like Thomas Mun *(England's Treasure by Foreign Trade)* declared against mediaeval regulation and in favour of *freedom of internal trade*. If they called for protectionist measures, the development of the merchant navy, the restriction of imports and the expansion of exports, this was because for them the accumulation of precious metals within the country was already synonymous with the accumulation of a "profitable stock", that is of *capital*, and of capital which must be made "to work" (i.e. that must be invested) in order to increase the national wealth.[43]

The mercantilists' ideas admirably reflect the requirements and the limitations of a capitalism which remains basically that of a *merchant* bourgeoisie. But they were already coming close to a more finished labour theory of value, going beyond considerations of the intensity of needs or of supply and demand. Some mercantilists did not restrict themselves to noting that it is the "market" that "determines" prices: behind the bewildering fluctuations in these prices they sought a *constant* which would explain the mystery.

In the seventeenth century William Petty (*Political Arithmetic*, 1631) and Boisguillebert *(Détail de la France)* examine most systematically the problem of exchange value, and offer the two solutions which, in the eighteenth century, were to define the two streams in political economy once it had become a scientific system, namely, the British classical school and the French physiocratic school. For the founder of the physiocratic school it is agricultural labour that constitutes in the last analysis the sole source of value. For William Petty, however, it is labour as such that is the source of all exchange value:

"Suppose a man could with his own hands plant a certain scope of Land with Corn . . . Let another man go travel into a country where there is silver, there dig it, refine it, bring it to the same place where the other man planted his corn . . . I say, the silver of the one must be esteemed of equal value with the corn of the other" (if the same time be spent on producing each): "let a hundred men work ten years upon corn, and the same number of men, the same time upon silver; I say, that the neat proceed of the silver is the price of the whole neat proceed of the corn."[44]

The idea of "natural" (or "intrinsic") price, as against "current" (or "market") price emerged slowly in the course of the seventeenth and at the beginning of the eighteenth century,[45] in step with the emergence of another idea, that of the "natural rent" which all capital, or, rather, all labour, can produce over and above its own costs of maintenance. It is significant that Petty and all the other early writers, as also the physiocrats, speak only of "rent" and not of profit. The social surplus-value still had, essentially, a purely *agricultural* origin. But political economy thus advances towards the idea which determines the "intrinsic price" of commodities on the basis of their cost of production, to which is added an "average rent" (in Petty's case, the average yearly rent of a field over a seven-year period).

The first mercantilist writers described economic life and arrived at the "national rent", or "national dividend" as a result of the *circulation* of commodities. But with the growth in manufacturing production and the technical revolution in agriculture during the seventeenth and eighteenth centuries, the *production* of the social surplus product became the focus of attention. Thus, there is more than one common feature between Petty and his "natural rent", on the one hand, and the physiocrats on the other, who thought they had discovered the origin of the entire social surplus product in the difference between the product of the peasant's labour and his own cost of upkeep. It seems, moreover, established that the most representative writer among the physiocrats, Quesnay, was influenced by ancient Chinese economic thought, which postulated that agricultural labour alone creates values.[46]

The physiocrats' endeavour to determine the origin of all social incomes is an excellent reflection of the French economic reality in the first half of the eighteenth century. The incomes of the noble owners of land were indeed merely the surplus produced by the peasants. As for the crafts and manufactories, they mainly worked for these nobles, since they still mainly produced luxury goods![47] The idea that only the labour of the peasants produced new value led to an extremely practical proposition, namely, that only the nobles, being the appropriators of the surplus, of the "national rent", ought to pay taxes. On this level too, the physiocrats encountered Petty, who, in less advanced economic conditions, had arrived at similar conclusions.[48]

Petty and his successors—John Locke, Richard Cantillon, James Steuart and many others—went further than the physiocrats in recognising the property possessed by all labour of creating exchange value. But they did not discover a true *common measure of value*. Labour and land, two sources of value, this was the contradictory conclusion to which they came, and which they strove vainly to reconcile.* This contradiction reflects the actual situation of capitalist economy in this period, in a state of transition between a predominantly agricultural economy and one based on industrial production.

In his famous book *The Wealth of Nations*, Adam Smith provided the first classical exposition of all the economic theories that were current in his day. He owed much to his British and French predecessors, and often merely repeated more precisely what they had already said. But his analysis of the commodity, of the division of labour, of capital and value, of simple and complex labour, constituted for the first time a coherent system. It was he who first systematically formulated the labour theory of value, which reduces the value of com-

* In reality, theirs was a simple costs-of-production theory, costs varying with the respective shares of labour and "land" (i.e. raw materials).[49]

modities to the amount of labour contained in them, and which endeavours to support this theory by a number of proofs, including historical ones.

Nevertheless, Adam Smith remained a prisoner of his period. His system of political economy involves three main contradictions which, in the last analysis, can all be attributed to the imperfections in his value theory.

First, he does not clearly distinguish between "labour" and "labour-power". In fact, his theory of value is more a theory reducing the value of commodities to the *costs of labour* than a theory which reduces this value to the expenditure of amounts of labour. Though he keeps on repeating that "labour alone . . . is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared",[50] in the last analysis he reduces "labour" to a worker's wages, that is, to the value of the corn needed to feed this worker.* This results in an obvious vicious circle: on the one hand, the value of commodities is determined by the labour they contain; but, on the other, the "value of the labour" which they contain is determined by the value of the corn that feeds the worker. This corn is, however, a commodity in its turn, its value being determined by the labour it contains. And so on. The "value of labour" is thus determined by . . . the value of labour!

Going on to break down the value of each commodity into wages, ground-rent and profit, Adam Smith quite correctly reduces these three elements to *living human labour*, of which in the last analysis, they are products. But he thus misunderstands the dual function of labour-power, that of creating new value and that of conserving the value of the means of production it uses. Thereby, his ideas about *reproduction* are spoilt from the start: the problem of the accumulation of capital in the form of increase in the stock of capital goods eludes him, and also even more completely, the problem of the division of commodities into two great categories: capital goods and consumer goods.

Finally, Adam Smith regards profits and ground-rent as two *different* entities, which make their appearance as the incomes of two different social classes. But though he realises that rent increases only at the expense of profits (if wages are at their lowest), and though in passing he reduces these two kinds of income to a single socio-economic origin, the social surplus product, he does not treat this surplus product as a category distinct from the forms in which it manifests itself. Indeed, he asks no questions about the origin of capitalist profit, contenting himself with noting that if the capitalist got no profit on his capital he would restrict himself to utilising it for the purchase of a piece of land that would bring in a rent. He does,

* William Petty had already written that "the day's food of an adult man, at a medium, and not the day's labour, is the common measure of value".[51]

however, recognise that this profit is a part of the new value created by the worker.

All these contradictions in Adam Smith's theory have a common source: this economist remained a prisoner of his time, which was in the main *prior* to the industrial revolution.[52] For this reason, the problem of the depreciation of fixed capital eluded him; for in domestic industry men mainly worked with instruments of production which were passed down from father to son and not yet periodically replaced under the whip of ceaseless technical revolutions. This is also why he was unable to grasp the real nature of value, since he became aware of it primarily in the process of *circulation of commodities produced by their owners.** It was only when labour power had itself become a commodity, and that, moreover on a big scale, that it became possible to penetrate the secret of value.

Climax and break-up of classical political economy

With David Ricardo, classical political economy finds its perfected bourgeois form and nears the brink of its inevitable break-up. In his *Principles of Political Economy* (1817), Ricardo starts from the very point at which Adam Smith ended. The work begins with this famous passage: "The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not on the greater or less compensation which is paid for that labour".[53]

Although, in the process of criticising Adam Smith, Ricardo soon arrived at the distinction between labour and labour-power, he did not draw from this distinction the conclusions which were to enable Marx to find the answer to the basic difficulty of any labour theory of value. Unlike Adam Smith, he does not make any dichotomy between products of labour and products of "accumulated stock" (capital), but explains that living labour introduces into the value of the raw material which it transforms part of the value of the instruments of labour which it sets in motion. Capital itself thus has a value which is ultimately derived from the amount of labour needed to produce it. Consequently, a real, consistent labour theory of value is thus set forth, in which the *amount of labour expended* in production (measured in hours of labour) becomes *the sole measure of exchange-value.*

Professor Sraffa has convincingly shown that, contrary to a generally accepted view, Ricardo did not modify his conception of value in the last years of his life.[54] What does emerge, however, from his last writings is uneasiness and misgiving about the *relations between value and price.* Ricardo had soon discovered that commodities were sold at prices which were only *approximately* equivalent to the amount of

* In Book I, Chapter 5 of *The Wealth of Nations*, the whole of Adam Smith's argument is based on examples taken from petty commodity production.

labour needed to produce them: "The relative cost of production of two commodities is nearly in proportion to the quantity of labour from first to last bestowed upon them".[55] This approximateness results, in Ricardo's opinion, from the fact that the *composition of capital* (what Marx was to call the organic composition of capital), its greater or less durability, that is, the division of it between fixed capital and circulating capital, also has an influence on value. According to Ricardo it is a matter of contradiction in the facts themselves—but a contradiction to which he was never able to find a solution. It was Marx who solved this contradiction through his theory of the equalisation of the rate of profit and the formation of prices of production.

It was not accidental that Ricardo, while formulating a classical theory of value, did not manage to formulate a harmonious theory of prices. The reason is that the idea of an average rate of profit, and the exact calculation thereof, are inseparably linked with the idea of surplus value and surplus labour, unpaid labour, that is, with the exposure of the *exploiting character* of the capitalist mode of production. With Ricardo, classical political economy had reached its most advanced stage of development. In its progressive and revolutionary struggle against landed property, this political economy had exposed the parasitic nature of all income not derived from labour. It had called for the widest freedom of production and exchange, as the only way to lower the costs of production of commodities, and thereby to increase the wealth of nations. In the famous debate between Ricardo and Malthus, the spokesman of the parasitic classes of society, this historically progressive role of the labour theory of value comes out clearly.*

But at the very moment when the British bourgeoisie was dealing its last triumphant blows against landed property, on the eve of the repeal of the Corn Laws and the victory of Free Trade, its revolutionary role came to an end. The British working class had boldly raised its head, and had received in reply the slaughter of Peterloo. The British bourgeoisie was thenceforth disposed to concern itself more with the defence of its own privileges than with the struggle against the privileges of the landed proprietors. Its conservative role became increasingly more important than its revolutionary role.

Ricardo formulated a theory of the tendency of the rate of profit to fall, but he deduced it not from the laws of accumulation of capital but from his theory of differential ground rent, diminishing returns from the soil, increasing costliness of foodstuffs, and the increase in nominal wages resulting therefrom.[56] Starting from the level attained by David Ricardo, economic science could not advance further, except to the peak to which Karl Marx was to lead it. In order to reach this

* On Malthus's theory of population and wages, see Chapters 5 and 9.

peak it was necessary at once to expose the apologetic character of the system and to formulate a coherent theory of surplus-value, of profit, of the equalisation of the rate of profit, of the tendency of the rate of profit to fall, of the crises and contradictions from which the capitalist order suffers. It was necessary also to show the historically limited nature of a system which was doomed to give way to a higher social system. Those who could not or would not follow that path were compelled to retrace their steps and descend from Ricardo's heights into the marshes of eclectic and vulgar political economy.

Post-Ricardian political economy thus appears as a phase of climax and break-up of the classical system, a climax and break-up realised *positively* by Marx and Engels, and negatively by the epigones and eclectic critics of Ricardo, those whom Marx called the "vulgar economists".

Marx's contribution

Marx transcended Ricardo in three ways. Through his working out of the theory of surplus value (his greatest achievement in the economic field, as he himself declared: see his letter to Engels, 24 August, 1867[57]) he made possible a comprehensive synthesis of sociology and economics and discovered the underlying law of all historical evolution, the law which *explains* the class struggle. Through his working out of the theory of the equalisation of the rate of profit, of the formation of prices of production, and of the tendency of the rate of profit to fall, Marx made it possible to transform an economic system hitherto seen as essentially static into a dynamic system, the chief laws of development of which he revealed. Through his working out of a theory of the reproduction of capital and of the national income, and through his adumbration of a theory of crises, he simultaneously achieved a first practical synthesis of micro-economic and macro-economic ideas.

The decisive step forward achieved by socio-economic thought through Marx was indeed the reduction of the separate categories of "profit", "rent" and "interest" to a single basic category, treated as such, the category of surplus value, or surplus labour.[58] Thanks to this reduction, which Adam Smith had merely glimpsed and which Ricardo had begun to undertake but had failed to realise, Marx was able to reveal in its turn the nature of this surplus value, which is only a particular, monetary form of the universal historical category of the *social surplus product, surplus labour*. Thenceforth, the modern proletarian could be seen as merely the heir of the mediaeval serf and the slave of the ancient world, and his exploitation by the capitalist class presented no further mystery. By revealing the economic secret of surplus value—the difference between the value of *labour-power* and the value *created by* labour-power—he was able to resolve all the contradictions of the labour theory of value and establish economic theory on a coherent scientific basis.

By revealing the social secret of surplus value—private appropriation of surplus value, of unpaid labour—Marx was able at one blow to grasp what is *rational* and *inexorable* in the behaviour of capitalists (striving to lengthen the working day, to reduce costs of production by developing the use of machinery, to accumulate as much capital as possible in order to "release" as much labour as possible, etc.) and also what is logical and inevitable in the workers' reactions to this. He has often been reproached with formulating an economic theory based on moral indignation. The truth of the matter is that his rigorous economic analysis made it possible for the first time to base moral indignation on firm scientific foundations.

Thanks to his theory of surplus value, Marx carried through the difficult task of reducing value to price of production, thereby laying the basis for an harmonious synthesis of micro-economic and macro-economic theory. *The same analysis* embraced both each commodity taken separately and the social product as a whole.

True, Marx was not the first to work out a general formula for the circulation and reproduction of the social product. It was Petty, King, Boisguillebert, Richard Cantillon (the real father of the famous *Tableau économique*) and Quesnay who were the pioneers of macro-economic investigation. But whereas with Quesnay the formula of social reproduction is based on a conception limited by the conditions of his time, the idea that only the labour of the peasant produces a surplus, a social "rent", Marx bases his reproduction formulas on the idea of the *accumulation of capital*, the great driving force of capitalist society. Whereas all other economists, contemporary or to come, were prisoners of their epoch, if not behind their times,* Marx, like every real genius, was in advance of his age. Having grasped the driving forces of the capitalist mode of production, he developed his analysis to its logical conclusion, and was thus able to glimpse the dynamic, at once promising and frightening, of the uninterrupted revolutions in technique which did not, in fact, occur on a world-wide scale until after his death.

Just as Marx had forerunners who had had a sort of presentiment of the theory of surplus value, such as Thompson, Hodgkins, and especially Richard Jones,[60] so also he was not the first to formulate the law of the tendency of the rate of profit to fall. This law comes to us from Malthus and Ricardo. But they based it on the "law" of diminishing returns from the *soil*, whereas Marx was the first to deduce this law from the tendencies of capital accumulation, linking it directly to the labour theory of value: if living labour is the sole creator of

* Cf. Alvin Hansen: "The history of economic thought reveals again and again a lag in the development of theory behind the march of events."[59]

value, then the reduction in the share of this labour (wages) in total capital, through the growth in the share of constant capital, necessarily reduces surplus-labour relatively to capital. Thereby also micro-economic and macro-economic analysis were closely linked one with the other: it is in the secret of the commodity itself that are to be discovered all the contradictions which doom the capitalist order to its inescapable fate.

Finally, without dealing with the problem of periodical crises in a systematic way—he had reserved this problem for a subsequent chapter of *Capital* which was never written—Marx was the first economist to give it a central position in the laws of development of the capitalist system, to grasp it as the outcome of contraditions *inherent* in the capitalist mode of production and not as the effect of external causes, whether accidental or "natural". True, economists contemporary with him such as Malthus, Sismondi, J. B. Say, MacCulloch, and Ricardo himself had from time to time touched on periodical crises. But none of them had incorporated a theory of crises in the *logic* of his economic system. In Marx, however, all the data and material for constructing a modern theory of crises are to be found. This is so true that a present-day economist, Wassily Leontief, has declared that all modern crisis theories are derived in one way or another from Marx.

Attacks on the labour theory of value

In Marx's case, classical political economy was surpassed in a positive way. In that of the school known as the "vulgar", or eclectic, economists, it was to be surpassed in a negative way. Sensing that the ground would slip from under their feet if they clung to the labour theory of value, most of Ricardo's successors who did not go forward in the same direction as Marx retreated to the position of Adam Smith, or else to a purely eclectic and superficial conception of value.

The first reaction against classical Ricardian political economy was given expression by Malthus. This consisted, in the last analysis, in a return to the confusion between labour as the essence of value and labour-power as the creator of value which marked economic thinking from William Petty to Adam Smith. At the same time, in order to explain profit, Malthus returned to the banal notion that this is merely an extra added to the cost price of goods. This notion dominated the writings of Jean-Baptiste Say, the prototype of what Marx called the school of "vulgar" economists—a school characterised by the abandonment of all attempts to systematise and synthesise, an essentially *psychological* theory of profit being "stuck on" to an eclectic theory of value which confined itself to describing the well-known "factors of production".

J.-B. Say, as a populariser of Adam Smith, already worked out in crude form all the answers which bourgeois political economy has found, right down to our own day, to the problems of surplus-value and profit. These two are, moreover, curiously and eclectically mixed up together in his writings. On the one hand he has a theory according to which surplus value is *produced* by capital, in the material sense of the word; on the other, he has a theory which sees surplus value as compensation received by the capitalists for the wear and tear suffered by their capital when it is used. These two theories gave birth to the *theory of abstinence,* first formulated by Nassau Senior.

All capital, it is said, starts with a sum of money which might have been consumed. The capitalist thus sacrifices immediate consumption in order to *save* the money, and he thus makes possible its use in order to buy instruments of labour which do not directly serve consumption. This sacrifice, this saving, must be compensated, and the compensation is interest (surplus-value). As for entrepreneur's profit, this is nothing but the wages paid him for the labour of management, without which no production could take place.*

Carried to its logical extreme, the theory of abstinence obviously comes to an absurdity. When Keynes speaks of: "the sacrifice which he [the entrepreneur] incurs by employing the equipment instead of leaving it idle",[61] we are clearly in the realm of the unreal, since no entrepreneur sacrifices anything when he uses equipment which he has bought for the very purpose of using it; there is no "sacrifice", loss, "abstinence" for the entrepreneur except in so far as the equipment is *not* used.† The theory of abstinence is meaningless except so far as it applies exclusively to *money-capital.* Any application of it to other forms of capital is absurd.

But even in its refined form, applied exclusively to money-capital, the theory of abstinence explains nothing at all. Does Mr. Morgan really make a "sacrifice" when he "abstains" from consuming 100 million dollars a year in the form of champagne and gold knick-knacks, and prefers to invest this money? Is not the truth of the matter rather that he invests his capital because he cannot consume

* Since the separation of the technical manager of an enterprise from the member of the board of directors has followed that of the owner from the entrepreneur, Schumpeter has explained that the efforts thus rewarded are not labour of technical management but those of "foresight regarding the state of the market".

† Keynes himself, moreover, elsewhere refutes the theory of abstinence when he points out that hoarding money, which the miser carefully *abstains* from consuming, brings in no interest. But he does this only to replace it with another equally mistaken, conception, that which sees in interest: "the reward for parting with liquidity". As if it were a "sacrifice" to lend inactive capital, under a capitalist régime! As if the real "sacrifice" for the capitalist were not that of keeping his money in liquid form! This theory of Keynes's is borrowed from the world of stock-exchange speculation, and not that of industrial life, on which, however, all the other spheres of activity of capitalist economy are based.

it, because this capital exceeds by a very wide margin what he requires to meet his needs?*

In despair, the supporters of the abstinence theory then fell back on a mythical epoch, lost in the mists of the past, during which the initial "stock of capital" was built up through some people "saving part of their income" whereas others wasted theirs.[63] But study of the origins of money capital shows that this epoch never existed. Indeed, it is not a minority of "thrifty" people who are to be found at the source of the social surplus product, but the minority of *usurpers* who took from the producers part of their surplus, whether by agreement or by force, who are the ancestors of modern capitalism. There was "abstinence", all right, but it was the "forced abstinence" of the producers, and not of the "entrepreneurs".†

In the end, the "vulgar" economists (with the exception of the neo-classical school of Böhm-Bawerk) are satisfied with recording the "facts", that is, that there is the owner of capital, the worker, and the landowner, each of whom draws an income from current production, because each of them is "indispensable" or "scarce".[65] The degree of "scarcity" is supposed to be precisely shown by the price paid to the given "factor of production".‡ Here is an obvious begging of the question. One starts by *assuming* that "incomes" are allocated according to this criterion, and one "confirms" this assumption in the analysis, without ever asking whether these "factors" are actually *creators of value*.

In reality, fixed capital "creates" no income, any more than land does. A machine to which the power of living labour is not applied, directly or indirectly, produces no value. The allocation of incomes among capitalists, workers and landowners takes place on the market. But the market is characterised by an *institutional inequality*, without which the capitalist régime could not last a single day: the *monopoly*

* A neo-classical critic has replied to Keynes's downright argument that "saving means going without a dinner": "No, saving usually means going without *a second dinner* on the same day". This is well said and quite correct. But is "going without a second dinner on the same day" really a "sacrifice" which calls for "compensation"?

† A contemporary supporter of capitalism, David McCord Wright, declares that the high level of wages in America is due to the great amount of equipment employed, and that this mass of equipment is the product "of the *not-consuming* by some people which enabled men to keep working on machine tools rather than satisfying immediate wants".[64] McCord Wright forgets that, far from making "sacrifices", the capitalists who ordered the original machine tools did this in order to make huge profits at the expense of the craftsmen, the real victims of abstinence, whose heirs, moreover, are not the recipients of capitalist profit . . .

‡ Why do entrepreneurs draw an income higher than that drawn by workers? "Because the type of service which the entrepreneurs contribute to production is scarcer than that contributed by other industrious persons."[66]

of the means of production in the hands of one social class; the *obligation* to which another social class is subject to sell its labour-power, in order to be able to exist. The "prices" of the factors of production correspond to this inequality of market conditions. They have nothing to do with the theoretical problem of the creation of value.

Some may retort: granted that this is so, why should we not be satisfied with this critique of the institutional conditions of inequality on the market? Why should we seek some mysterious "intrinsic value", echo of the old "natural price", lying behind actual prices, market prices? *What* does this labour theory of value add to the concrete analysis of capitalist phenomena, or to the analysis of its laws of development, which can just as well be undertaken on the basis of prices of production?

The endeavour to find a simple category which provides the ultimate explanation of the structure of internal logic of phenomena is not a mere intellectual exercise. It is the way in which all scientific thinking proceeds, in all fields of knowledge. Chemists try to reduce all substances to a molecular structure. Physicists reduce molecules to atomic structures, made up of electrons or other infinitely tiny particles. Linguistics has become a science with the discovery of its constituent elements (phonemes). Every discipline which declines to look for comparatively simple elements behind apparent forms dooms itself to pure empiricism, remains confined to the surface of things, and is incapable of grasping them in their process of development.

By discovering this constituent element, value, economic science becomes possessed of a key for the solving of a number of practical problems. Without the labour theory of value, no theory of surplus value, and therefore no possibility of tracing to a single source profit, interest and ground-rent, no possibility of understanding the mysterious fluctuations of agricultural production during the last 150 years. Without the labour theory of value it would be impossible to understand the long term tendencies of prices, which are ultimately determined by the amounts of labour needed to produce commodities.

The theory of prices of production—of "costs of production"—itself becomes purely empirical and ceases to explain anything if the labour theory of value is abandoned.* Because, in Marx's calculations, the equalisation of the rate of profit shares out a body of surplus-value *previously created*, the size of which is explained by means of the labour theory of value. When this criterion is abandoned, that is, when the total sum of prices of production has to equal the total sum of

* This is notably the case with the majority of present-day theoreticians, who content themselves with seeing profits as a "differential", a "gap between costs of production and selling prices",[67] without asking themselves about the origins of this "differential".

value, one is driven to deducing the amount of profit from the fluctuations of supply and demand—with a thousand refinements—and so finds oneself left with prices which oscillate in a vacuum instead of around a pre-established and given axis. The consequences of this are felt especially in the field of the calculation of national income and the study of possibilities of economic development, above all for the under-developed countries.* In science, any refusal to face fundamental theoretical problems always has to be paid for. The "utility" of keeping the labour theory of value, that is, of a coherent economic system forming a whole, is thus fully demonstrated.

It remains to deal rapidly with some of the most frequently met objections to this labour theory of value:

1. By declaring that all commodities have a common property, that of being the product of human labour, Marx is said to have deliberately excluded from the list all commodities which are not products of human labour, but free gifts of nature (land, minerals, oil-wells, special sites, etc.).[68] Or, in other words: "If labour were the cause of value, value would be absent where labour is absent".[69] Indeed, "nature's gifts" have, in fact, no value, except where they are the product of real human labour (the Dutch and Flemish *polders*, irrigated and reclaimed land, drained marshes, etc.). If they sometimes have a price, this results from the establishment of an artificial monopoly of a social kind, restricting ownership of them. When this monopoly is absent, the "price" vanishes along with it.† As for minerals, they are without value only in so far as they remain underground. But the *labour* of extracting them creates value all right, just as does the *labour* needed to transport them to where their consumers are concentrated.
2. By declaring that all commodities have a *single* common property, that of being products of human labour, Marx is said to have eliminated from his reasoning a series of other properties common to all commodities: that of being products of nature, of being scarce, of being subject to the law of supply and demand, and so on.[70] Marx nowhere, in fact, declares that the *only* property common to commodities is that they are products of human labour. He stresses, along with Aristotle and all the chief economists, ancient and modern, that commodities all have in common use-value and exchange-value. But whereas use-value—a particular link between the object and the *individual*—can obviously not be an objective link, a common measure usable *by the buyer and the seller at once* (since, by definition, the commodity sold has no utility for the seller at the moment when he sells it!), exchange-value must be measurable by a property *common to all the pro-*

* See Chapters 10 and 13.

† See examples given in Chapter 9.

ducers who appear on the market, a *social* property which makes it possible to weave a fabric of relationships between all these producers. The scarcity of commodities is a pre-condition for producing them; but it is not commensurable in any exact way as between two commodities. It can at most be deduced from the allocation of the total labour-time available to society between the two branches of social production concerned. And this indirect procedure thus brings us back to the property of commodities as human labour, universal and abstract, in congealed form, pieces of the total labour-time available to society; that is, it brings us back to the labour theory of value.

3. If labour were the only source of value, equal labour would produce equal value. Experience, however, points to the contrary: the same labour, producing two pieces of meat coming from different parts of an ox, results in two different values.[71] First, the critics mix up price and value; market prices vary around value but are not identical with it. Next, they mix up individual labour and *socially necessary labour*. It is not the individual's expenditure of labour that creates value, but only the expenditure of labour *which is recognised as socially necessary by the market*. That depends on relative levels of productivity, and we thus find ourselves face to face with the problem of the equalisation of the rate of profit.*
4. If labour were the only source of value, the value of a commodity ought to remain unchanged, since the labour incorporated in it has been given once for all. Yet the value of commodities changes with time. It may fall (as in periods of crisis) or it may rise (as happens with works of art, etc.).[72] Once again, the critics here mix up value and price. *Monopoly prices* may depart very far from value,† as is the case with the prices of works of art. Commodity prices may fall sharply during a crisis. That does not at all mean that some other, mysterious factor is suddenly determining their value. It simply means that the market has shown *a posteriori* that a large proportion of the labour expended to produce these commodities was wasted, from the social standpoint, does not constitute socially necessary labour, and thus receives no equivalent from society in the act of exchange.

The marginalist theory of value and neo-classical political economy

Eclectic political economy failed, however, to give complete satisfaction either to scholars who continued to try to answer the questions

* See Chapter 5, section on "The equalisation of the rate of profit in capitalist society".

† See Chapter 12.

which previous generations had bequeathed to them or to the bourgeoisie itself, which found itself constantly exposed to the risk that, starting from the *popularisation* of Ricardo's ideas, economists might pursue some point in the direction of socialism (as happened with John Stuart Mill). In order to neutralise the "socialist danger", which was felt with especial keenness after the revolution of 1848, and above all after the Paris Commune (1871), the entire structure based on the labour theory of value had to be demolished. This was the great turning-point of bourgeois political economy, towards *the marginal theory of value*, which was prepared so early as 1855, independently of each other,[73] by Hermann Gossen and Richard Jennings, and which culminated in the British (Jevons, 1871), Viennese (Menger, 1871) and Swiss (Walras, 1874) neo-classical schools.

As compared with the eclectic and vulgar conceptions, the neoclassicists were distinguished by a greater methodological rigour. Like the classical economists they strove not to leave any economic phenomena unelucidated, not to gloss over any question, to provide the material for the building of a coherent structure. The apologetic nature of this structure is shown not so much in the conclusions as in the methodology and the initial hypotheses. The system is coherent, but it is divorced from reality, which it fails either to grasp statistically or *a fortiori*, to explain in its laws of development.

From Petty to Ricardo and Marx, every theory of value was *objective*, that is, its ultimate starting-point was *production*; value was identified with cost of production, or revolved around it. The influence of demand upon value, as an independent variable, was denied; and even when it was indirectly taken into consideration, it appeared only as an indirect function of production itself, since all incomes were regarded as having been created in production. Indeed, the entire classical theory was *oriented* for this reason towards a synthesis between micro-economic and macro-economic conceptions, a synthesis which Marx alone proved capable of achieving successfully.

The neo-classical school, however, approached the problem in an altogether different way. It was a school of pure micro-economics, considering that value can and should be determined for each commodity taken separately. It regarded this value no longer as a function of cost of production but as a function of the independent influence of demand upon cost of production.* The separation of exchange value from use value, the starting-point of the classical school, was questioned. It was declared, on the contrary, that exchange value is essentially a function of use value, of the utility of the given commodity.

* Alfred Marshall tried to make an eclectic synthesis between a theory of value starting from the production side and one starting from "independent demand".

But how is this utility to be measured? The neo-classicists here came up against a difficulty which all their predecessors had encountered, from Aristotle to Jean-Baptiste Say, and including both the French monk Buridan and the encyclopaedist Condillac. If I ask somebody: "What is the utility of this knife to you?" he will reply: "A very great utility", or "I use it a lot", or else "I have no need of it at all". Nobody answers a question like this by stating a *quantity*, any sort of measure of "use-value". Resigning themselves to not being able to express use-value quantitatively, the marginalists fell back on a quantitative expression of the *needs* which use-value has to meet. They laid down individual scales of needs; this is why this school has been correctly described as being *subjectivist*, since its starting-point is purely arbitrary, subjective. As Rudolf Hilferding put it, whereas Marx and the classical economists start from the *social* character of the act of exchange, and regard exchange value as an *objective* link between owners (producers) of different commodities, the marginalists start from the *individual* character of needs, and regard exchange-value as a *subjective* link between the individual and the thing.[74]

Nevertheless, the quantitative expression of needs is not enough to overcome the difficulty. A man obviously has more need of bread and water than of a diamond. Yet a diamond has a higher exchange-value than that of bread. A man has even more need of air, which normally possesses no exchange value. This is why the neo-classical theory states: it is not the intensity of the need in itself, but the intensity of *the last fragment of need not satisfied* (of the *marginal* utility) that determines value.

Starting from this general idea, the neo-classical school worked out a series of curves the intersection points of which are supposed to show conditions of equilibrium: curves of supply and demand, determining equilibrium prices; curves of indifference and of prices determining the quantities of commodities demanded at particular levels of income; curves of marginal costs, determining for entrepreneurs the levels of production which will guarantee them the highest profits; a curve of wages offered and of "disutility of labour", determining the demand for employment; a curve of interest rates offered and profit expected; determining the volume of investment; a curve of the accumulated amount of capital and of the mass of money-capital available, determining the rate of interest; and so on. In the end, the whole system is in perfect static equilibrium, "profit" itself having disappeared, at least in Walras's work, since under conditions of total competition the value of the marginal product—which determines the value of all production—is dissolved into depreciated capital, wages, interest and ground-rent.[75]

A *marginalist theory of general equilibrium* is thus perfected, which one writer has summed up as follows:

"Under conditions of competition, we are told, the entrepreneur increases the employment of each factor of production to the point at which the marginal productivity of this factor (net product obtained thanks to the last unit employed) is equal to the price of this factor on the market, and he increases his production to the point at which the marginal cost of the product (cost of the last unit) is equal to the price of the product.

"In a situation like this, the satisfactions obtained by the consumers are at their highest because any transfer of a factor of production would result in a reduction of the 'value' created by this factor. In the case of a worker, for instance, he is producing in an hour, where he is working at this moment, a 'value' equal to his wages. If he were to be transferred elsewhere, he would produce a little less; in fact, he would be 'added' to a group of workers whose marginal productivity is already equal to their wages, so that his own productivity would necessarily be a little less."[76]

Eric Roll is right to criticise the mechanistic thesis of Bukharin, according to which the marginalist school reflected the special interests of a new stratum of *rentiers* which had made its appearance among the bourgeoisie.[77] But Bukharin was right when he stressed that the marginalist school *adopts* the point of view of the *rentier*, or, more precisely, of the capitalist who has withdrawn from the sphere of enterprise, for this school does start from *individual consumption* rather than *social production*, which had been the starting point of the classical economists and of Marx.[78] It is not accidental that the examples used by the founders of the neo-classical school are nearly all drawn from luxury production.

The special nature of the neo-classical school is further emphasised by the fact that it was for a long time unable to determine the marginal value of capital goods. In the end it managed to do this only by introducing, with Böhm-Bawerk, the notion of a "roundaboutness" of production which becomes more and more intensified as capital goods increasingly enter into the process, a "roundaboutness" which has to be "paid for". It is, moreover, unable to explain how, from the clash of millions of different individual "needs" there emerge not only uniform prices, but prices which remain *stable over long periods*, even under perfect conditions of free competition.* Rather than an explanation of *constants*, and of the basic evolution of economic life, the "marginal" technique provides at best an explanation of ephemeral, short-term variations. It is significant that in Walras's fundamental work he starts from the example of sellers and buyers

* It does not explain, either, why the price of bread is the same for hungry unemployed men and for millionaires, though the "marginal utility of an additional unit" is a thousand times more for the former than for the latter.

"inclined to go in for bidding", that is, to stock-exchange speculators.[79]*

Today, most economists readily admit that the equilibrium system of the neo-classicists is totally divorced from reality.[80] It does not take into account the particular institutional framework of capitalism, which makes quite absurd the notion that wages are determined by "the product of the last unit of his time that the worker wishes [!] to give up rather than devote it to leisure".† It does not take into account the dynamic character of competition and the continual disturbances of equilibrium which it causes. It is essentially *static* and brings in dynamics as at most an element disturbing equilibrium, whereas in reality equilibrium is only a transient moment in a spasmodic economic movement which is in ceaseless oscillation. It has no explanation to offer either for periodical crises or for structural crises. Carried to its logical conclusion, it even denies the phenomenon of imperialism, or, more precisely, denies that there is any connection between imperialism and the laws of development of capitalism.[81]‡

The neo-classical theory is not only divorced from social reality as a whole. It is also divorced from the practical reality of everyday life. The labour theory of value can be demonstrated empirically, even if only in the sense that, in the last analysis, all the elements of the cost of production of a commodity tend to be reduced to labour, and to labour alone, if one goes far enough back in the analysis. Despite all the teachings of the neo-classical school, capitalist businessmen continue to calculate their costs of production on this basis.§ And when they seek to make comparative productivity calculations, they do this using the yardstick of "amount of labour expended", and using this yardstick only.[84]

* This example enables us to detect red-handed, so to speak, the mistake made by the marginalists, since the rate at which shares stand on the stock exchange is not *determined* by the "law of supply and demand"; this "law" at most causes this rate to *vary around a certain axis*, namely, the capitalisation of the dividends expected. Similarly the "law of supply and demand" makes the market price of commodities vary around their *value*, which is determined by the amount of labour socially necessary to produce them.

† The neo-classical theory which determines the "income of the three factors of production" by their "marginal productivity" is merely a false generalisation of Ricardo's theory of differential rent; see Chapter 9, last section.

‡ Cf. this remarkable forecast by Schumpeter: "But we can conjecture that among all countries the United States is likely to exhibit the weakest imperialist trend."[82]

§ As a number of investigations, such as that by Hall and Hitch, have shown, enterprises do not know what their marginal cost is, and argue in terms of total average cost, plus a preconceived profit margin."[83]

The "Keynesian revolution"

The marginalist theory of value and the neo-classical school based upon it dominated bourgeois economic thought for three-quarters of a century. Their objective function was, no doubt, purely apologetic—to justify the capitalist order as more or less inevitable; to justify wages, prices and profits as the result of exchanges carried out on an equal footing. In so far as the capitalist expansion which marked the second half of the nineteenth century and the first decade of the twentieth itself constitutes a much more powerful "argument" in favour of capitalism than any theoretical construction, the bourgeoisie felt no need for a trend of economic thought other than this purely apologetic school.

Several generations of economists, however, showed themselves dissatisfied with the answers given by the neo-classical school, especially to the problems of investment (the rate of interest), money (the quantity theory of money) and periodical crises. The neo-classical school began breaking up on its weakest sides, that is, the difficulties it met in formulating a dynamic theory, a theory of growth, starting from the micro-economic data of marginal value, and the difficulty of reconciling the theory of prices resulting from supply and demand* with a theory of prices resulting from the quantity of money in circulation.

It was in this way that the idea of a rate of interest resulting from the supply and demand of capital, a rate of interest which rises until the demand ceases because it is excessive, was refuted at the beginning of the century by the Swedish economist Wicksell. The latter showed that the rate of interest in equilibrium is determined by the relation between *saving* and *investment*; and Gunnar Myrdal, a pupil of Wicksell's, went still further, explaining that this rate of interest actually depends on the return expected from investment,[85] that is, on the rate of profit, as Marx says.

While, during the nineteenth century, only critics of capitalism concerned themselves with crisis phenomena, after the end of that century Tugan-Baranovsky began, under the direct influence of Marx, the *empirical study of periodical crises*, which led to the modern theories

* It can be said that the marginalist school was never able to solve the problem of the "marginal value of money", and that for this reason it remained dualistic, combining a *subjective* theory of value with an *objective* theory of money (e.g. the quantity theory). It is clear that an increase in the "stock of currency" does not necessarily reduce the "marginal value" of this stock, as would happen in the case of an increase in a stock of corn, since money can be used to buy, one after another, commodities which correspond to *different* needs of equal intensity. The dualism of the theory is seen if one imagines an increase in the stock of currency suddenly causing a rise in prices, without any change in the marginal value of the commodities concerned.

The quantity theory of money implies that prices rise or fall depending on whether the quantity of currency in circulation increases or decreases, in relation to a definite level of equilibrium.

of the economic cycle and economic growth. He was inspired, moreover, by all the procedures worked out by Marx, such as the division of social production into two sectors, the question of the periodical renewal of fixed capital, etc. Following Tugan-Baranovsky, Spiethoff, Aftalion, Bounatian, W. C. Mitchell, Schumpeter and others also concerned themselves with studying and trying to explain the empirical data of crises. In 1917 the University of Harvard set up a special institute for the study of cyclical fluctuations (Harvard Committee for Economic Research). But it was only after the great economic crisis of 1929–1933 that official economic theory completed the turn which has come to be known as the "Keynesian revolution".

This casual relation between experienced historical reality and the change in economic thinking is nowhere so clearly seen as in Keynes himself. In his *Treatise on Money*, Keynes remained attached to the quantity theory of money, a theoretical construction separate from the main body of neo-classical economic thought. Under the influence of Alfred Marshall, he still dealt with money as a mere medium of exchange and not as simultaneously a medium of payment and a store of value. It was under the direct influence of the crisis that he wrote in 1936 his *General Theory of Employment, Interest and Money*, which overturned these traditional notions.

Taken together, the equilibrium equations worked out by Walras theoretically implied full employment. A society based on free competition would have automatically a tendency towards full employment, and the only unemployment conceivable within this framework was frictional unemployment. If crises did break out, then they must be due basically to phenomena of currency disorder and excessive strain on credit. Keynes, however, had before him the example of the British economy between 1918 and 1938, in which for twenty years about 10 per cent of the working class remained unemployed. Equilibrium thus could perfectly well coincide with large-scale unemployment; there must be a flaw in the academic theoretical explanation.

Keynes discovered this flaw in the twofold function of money, as being both a medium of exchange and a medium of payment, *(potential) demand for commodities on the market*. Now, households and firms may take two decisions regarding the sums of money they possess; a decision to spend (consume) them, or a decision to hoard them. And since it is the volume of demand that determines the level of economic activity, the latter will fluctuate with the propensity to consume, that is, according to whether incomes as a whole are spent or not.[86] As households usually spend the bulk of their income, it is fluctuations in the expenditure of firms, fluctuations in investment, that ultimately determine the volume of demand, employment and production.

The Keynesian theory is an *income theory*, since it makes the level of employment dependent in the last analysis on the allocation of income. And since a certain allocation of income (of demand) is essential if full employment is to be achieved, Keynes proposes that public expenditure be brought in to make up for the inadequacy of investment when there is a fall in income and excessive unemployment. Thanks to the operation of the multiplier,* all public expenditure increases national income by an amount greater than itself. This is how the theory of deficit spending is arrived at, extra public expenditure making it possible to "prime the pump of recovery".

Thereby, Keynes broke radically with a whole series of dogmas which were generally accepted in his age: the dogma by which a crisis —even that of 1929!—could be overcome if only wages could . . . fall sufficiently low to make production profitable once more for the entrepreneur (without answering the question: who is to buy the results of this production?); the dogma of stability of the currency as something to be preserved at all costs; the dogma that all income always ends by being spent; the "law of markets", etc.

The historical significance of this break is obvious. It is the turn in bourgeois political economy from an apologetic function to a pragmatic one. *Instead of justifying capitalism in theory, it was now a matter of saving it in practice* (prolonging its existence) by weakening the violence of periodical fluctuations. Social control of economic cycles had become a political necessity, both within each country and internationally: "The principal practical problem of our own generation is the maintenance of employment, and it has now become . . . the principal problem of economic theory."[87] Keynes and his followers were pursuing a practical purpose: organising state intervention in economic life in order to bring about a weakening in the violence of crises. All their theoretical preoccupations pointed in that direction. Purely theoretical problems were brushed aside more and more peremptorily. One of Keynes's disciples, Samuelson, is content to start, in his textbook *Economics* from the "fact" of the "three factors of production", without even bothering to formulate a theory of value.

Being pragmatic, the Keynesian school is essentially macro-economic. In order to save capitalism this school focuses attention on the major economic aggregates and points to them as the object of possible intervention by the public authorities; the value, or the individual price, of commodities matters little. The decisive turn of official political economy towards macro-economic theory made it possible to deepen the theory of the economic cycle and of economic growth, and through the medium of econometry it has given birth to a series of new *techniques* for economic research, forecasting and planning, which are

* See Chapter 11 for explanation.

as useful for a society which has abolished capitalism as for capitalist society itself, if not more so.

These positive elements contained in the "Keynesian revolution" cannot be denied. They constitute, moreover, on the whole, at least objectively, a return to classical conceptions, if not to those of Marx. Keynes's criticism of the theory of markets and of the quantity theory of money is to be found in its essentials, in Marx's work: even the theory of interest based on liquidity preference originated with Marx.

Nevertheless, Keynes remained a prisoner, in a number of spheres, of the mistaken ideas of the neo-classical marginalist school.* And his pragmatism often puts him rather cynically in the service of the bourgeoisie, as when he declares his preference for price-increases (moderate inflation), since the workers put up much less opposition to a reduction in real wages, through a price increase, than to a reduction in nominal wages.[89]

He continues to regard "forecasts by entrepreneurs" as the decisive factor in the cyclical progress of the economy, without asking himself whether these "forecasts" do not depend ultimately on objective factors, such as changes in the rate of profit. He continues to speak indiscriminately of "income" and "saving", without making the fundamental distinction between the income of the workers, which is rarely saved (all working-class saving is literally deferred consumption) and capitalist saving, which alone has the choice between investment and hoarding. While understanding the importance of the phenomenon of hoarding, practically ignored by the marginalists, he excessively restricts its importance by defining investment as "an asset in some form or other",[90] which brings us back to the equilibrium equation whereby saving equals investment, whereas it would have been enough to use the concept of *productive* investment in order to strengthen the entire argument considerably. Finally, though he rebukes the marginalist school for basing itself on the theorem of fixed income, he himself employs the no less unrealistic theorem of the "present volume and amount of equipment", linked with a mobile rate of profit,[91] whereas the fluctuations of this rate depend precisely on the evolution of the accumulated amount of fixed capital, as he admits, moreover, in

* It must however, be pointed out that in one place at least Keynes tries to return to the labour theory of value. He writes: "I sympathise therefore with the pre-classical doctrine that everything is *produced* by *labour*, aided by what . . . is now called technique, by natural resources which are free or cost a rent according to their scarcity or abundance, and by the results of past labour, embodied in assets, which also command a price according to their scarcity or abundance". (So far, we are still within the framework of vulgar and eclectic political economy.) "It is preferable to regard labour, including, of course, the personal services of the entrepreneur and his assistants, as the sole factor of production, operating in a given environment of technique, natural resources, capital equipment and effective demand."[88]

another passage. As regards the entire problem of capital accumulation, his views are excessively coloured by the experience of the period 1920–1935 in Britain, a period of semi-stagnation.

The econometrists

The income theory and economic cycle theory of the Keynesian school brought economic thought to the point where the need was felt to represent the system in the form of mathematical models. Thus, very soon, from the end of the 1930s and the beginning of the 1940s onward, macro-economic models began to be constructed for studying the cycle (especially models based on the combination of the multiplier and the accelerator*), then models of economic growth, based on the capital coefficient, and finally, input-output tables and operational research calculations. Adopted only in a fragmentary and spasmodic way in capitalist economy, these techniques will not really find their full application except within the framework of a planned and socialised economy, to which their usefulness would be undeniable, especially where hard mechanical problems needed solving (choice between different investment projects with the same priority aim; progressive replacement of current technical processes by new ones; determination of the more or less underdeveloped state of certain regions and of the type of investment most appropriate to overcoming this backwardness, etc.). The refusal to use these techniques in the U.S.S.R. in the Stalin epoch was justified by pseudo-theoretical arguments which were quite valueless, and caused a great deal of harm to the economic development of that country.

While, however, econometry is a valid technique, it is only a technique, and even only an *auxiliary technique*. It cannot in itself either set problems or give direction to economic policy; it always remains in the service of a way of looking at things and a policy which are *previously determined*. Any attempt to attribute an excessive importance to this technique, or a universal or absolute value to the results of econometric research, must result in unavoidable confusion and error.

Above all, the econometric technique is a technique of *simplification*. It is obliged to work with *some* data, *some* variants which are known and quantifiable.[92] Like neo-classical theory it has always to operate with the well-known limitation: all other things being equal. But while this limitation is without importance in a purely theoretical context, it becomes decisive as soon as abstract speculation is no longer what is involved, but precise forecasting with a view to action. The result of any econometric calculation must be regarded as raw material to which a much fuller dialectical analysis has to be applied, taking

* See Chapter 11.

into account a large number of variants and secondary factors which the calculation itself left on one side.

Consequently, every econometric calculation is pre-determined by the point of view of whoever has formulated the problem. Depending on whether one accepts or not the hypothesis that there is an *interaction* between the level of consumption and the return of an investment which is forecast, the choice of the capital coefficient on which the calculation is to be based will differ substantially.* One estimate of the value of the multiplier differing by only one decimal point from another, may lead to considerable differences in the results forecast. The adoption or not of the labour theory of value, and the determining of the national income as a function of this theory or not, will lead to different formulae and different preferences in the solving of equations to determine the optimum growth-rate. Depending on whether one regards the population as merely so many mouths to be fed or as also a potential labour-force whose creative possibilities should be mobilised, the result of a calculation of the possible growth of the national income per head of population in an under-developed environment may differ by as much as 1 differs from 2 or 3.

Econometry thus has to remain subordinate to a general economic theory. As soon as it seeks to become independent of any such theory it risks going astray. Keynes understood this very well, and wrote, in a famous dispute with Tinbergen: "Am I right in thinking that the method of multiple correlation analysis (that is, the statistical method) essentially depends on the economist having furnished, not merely a list of the significant causes, which is correct so far as it goes, but a complete list? For example, suppose three factors are taken into account, it is not enough that these should be in fact *verae causae*; there must be no other significant factor. If there is a further factor, not taken account of, then the method is not able to discover the relative quantitative importance of the first three. If so, this means that the method is only applicable where the economist is able to provide beforehand a correct and indubitably complete analysis of the significant factors. The method is one neither of discovery nor of criticism".[93]

An apologetic variant of Marxism

The most fertile period of Marxist economic theory was that between 1894 and 1914. After the publication by Friedrich Engels of Volumes 2 and 3 of Marx's *Capital*, and the assimilation of these volumes, after the publication by Kautsky of Marx's *History of Economic Doctrines (Theorien über den Mehrwert)*, in an atmosphere of rapid advance of the labour movement and of intense ideological struggle between "Marxists" and "revisionists", there came out, one after another, Lenin's work on the development of capitalism in Russia, Kautsky's

* See Chapter 16.

on capitalism in agriculture, Parvus's first studies of imperialism, the debates among the Russian "legal Marxists" on the theory of crises, and then, the culmination of this entire epoch, Rudolf Hilferding's *Finance-Capital* and Rosa Luxemburg's *Accumulation of Capital*; followed up, moreover by important articles and pamphlets devoted to discussing and popularising the ideas in these books, by Kautsky, Otto Bauer, Pannekoek and Lenin (*Imperialism, the Last Phase of Capitalism*). The bulk of these studies constituted a "bringing up to date" of Marxism in face of the structural transformations which had taken place in the world market as well as in the imperialist countries themselves in the epoch of monopolies which Marx and Engels had been able to sense the coming of but which they had not lived to analyse in detail.

A second phase of development of Marxist economic theory, less fertile than the first, extended from the end of the First World War to the beginning of the great economic crisis of 1929–1933. Two categories of problems held the centre of attention: those of a society in transition between capitalism and socialism (that is, of Soviet economy), and those of imperialism. In the former category should be mentioned the works of Bukharin and Varga; Preobrazhensky's *The New Economics*; the first Soviet textbook of political economy, by Lapidus and Ostrovityanov; and more specialised articles by Strumilin, Trotsky, Gatovsky and others. To the second category belong works by Henryk Grossmann, Fritz Sternberg and Otto Bauer.

But at the very moment when the bankruptcy of traditional bourgeois political economy become plain, and when bourgeois economic thought made its great pragmatic turn, Marxist economic thought, far from making a fresh leap forward, itself experienced a pragmatic transformation, at least in the Soviet Union and in every milieu dominated by the Soviet Union. From being an instrument of research into objective truth it was degraded to the role of justifying *a posteriori* the political or economic decisions taken by the government of the U.S.S.R. While a study of the various successive justifications of the "twists and turns" of Soviet policy has now only a purely historical interest, this does not apply to the *apologetic distortions* introduced into the corpus of Marxist economic theory itself. The two most important of these relate to the question of defining socialist society—in particular as regards commodity production—and to that of payment of labour-power in a society transitional between capitalism and socialism (and, *a fortiori*, in socialist society itself).

The labour theory of value implies that commodity production disappears with the market, that, is, with any form of circulation of products in which human labour has to go the roundabout way of exchange in order to be adjudged socially necessary or not.[94] The passages on this point in the writings of Marx and Engels are numerous and unequivocal: *Critique of the Gotha Programme*,[95] Engels' letter to Kautsky of September 1884, etc. The disappearance of commodity production depends, however, on two factors: the withering-away of all private ownership of products in circulation, any form of property different from collective ownership; and a disappearance of conditions of partial shortage such that exchange of labour-power against a limited quantity of consumer goods can be abolished as the means of distributing products. These two conditions are necessary for completing the construction of a socialist society.

The official Soviet thesis, according to which the construction of socialism has been finished in the U.S.S.R. since 1936, though the categories "commodity, value, money" still obviously apply there, represents a revision of the Marxist theory of socialist society. *The Textbook of Political Economy* published in August 1954, adopting the theme of Stalin's article on "Economic problems of socialism in the U.S.S.R.", defends this same revisionist view.[96] It declares that the survival of commodity production follows, in the U.S.S.R., from the existence of two forms of Socialist property namely, state property and collective-farm property, whereas in reality the survival of commodity production follows from the inadequate development of the productive forces. In this way it was possible to expound the idea of a socialist society having a level of development of the productive forces, and a standard of living, lower than in the most advanced capitalist countries. Such an idea is in contradiction with the basic theses of Marxism.

The apologetic nature of these ideas is obvious. They were formulated *a posteriori* in order to justify a political thesis of the leaders of the State, namely, that the construction of socialism had been completed in the U.S.S.R. They were formulated in order to hide from the citizens of the U.S.S.R. the enormous gap which existed in that period between their standard of living and that of the citizens of the most advanced capitalist countries. By justifying the continued existence of commodity production under "socialism" the authors of this thesis likewise justified the continued existence of social inequality and alienation of labour in this strange "socialist society".

Even plainer is the apologetic character of the theory according to which payment for labour in "socialist" society is regulated according to the "quantity and quality of labour performed for society". This formula is nowhere to be found in Marx. On the contrary, he makes it quite clear, in the *Critique of the Gotha Programme*, that in the first phase of socialist society the producers will be paid only in accordance with the *quantity* of labour performed.[97] In *Anti-Dühring*, Engels even explains why payment in accordance with the *quality* of labour, which is reasonable in capitalist society so long as *the costs of acquiring special skills are met by private persons*, loses all significance in a socialist society in which these costs are completely socialised.[98]

Far from being a "special" application of the labour theory of value to a "socialist" society, the theory of payment "in accordance with the quantity and quality of labour performed" is nothing but a crude justification of the differences in wages which exist *de facto* in the U.S.S.R. and in other societies in transition from capitalism to socialism under a marked degree of bureaucratic domination.* It is nowhere to be found in the writing of any of the Soviet theoreticians of the first ten years of the U.S.S.R.'s existence: neither in Lenin, nor in Bukharin, nor in the first *Textbook of Political Economy*, by Lapidus and Ostrovityanov. It makes its first appearance in 1932, when what was needed was precisely to provide an apologia for the sharp increase in social inequality. Since then it has been repeated by innumerable official text books (in Yugoslavia as well) and by western writers adapting themselves closely to the policy of the Soviet state. It is contained in the *Textbook of Political Economy* published in 1954.[100]

But this apologetic theory stumbles over an obvious difficulty. Though in capitalist society skilled work can be regarded as "complex" labour (that is, simple labour multiplied by a coefficient which takes account of the costs incurred in acquiring the given skill), it is never paid very much more than simple labour. In the Soviet Union, however, the differentials remain very large; they were huge in the Stalin era.† A theory had to be found to justify these differentials. This is why John Eaton[102] writes that the "quality of the labour performed" is *judged in accordance with the social utility of the labour performed.* A. Leontiev was apparently the inventor of this idea. In adopting it, however, theoreticians calling themselves Marxist made a 180-degree turn. For any theory which determines payment by the "social utility of the labour performed", and no longer by an objective criterion which permits different kinds of labour to be measured comparatively, makes a final break with the labour theory of value in order to pass over into the camp of the subjective theory of value. Doubtless a thesis which endeavours frankly to justify social inequality must lead to such

* The passage in *Anti-Dühring* is well-known, where Engels makes fun of the claim that professors, architects, etc. should get "a little extra" compared with "porters". Cf. similarly, Marx and Engels in *The German Ideology*: "But one of the essential principles of communism, by which it is marked off from all reactionary socialism, consists precisely in the empirical notion, based on human nature, according to which differences in the *head*, in intellectual abilities, do not determine at all any differences in the *stomach* and physical *needs*; and that therefore the mistaken formula, based on our present conditions, 'To each according to his abilities', in so far as it relates to consumption in the strict sense of the word, should be replaced by the formula 'To each according to his needs'; that, in other words, *differences* in activity do not confer any right to *inequality*, to any privilege in ownership or consumption".[99]

† On the eve of the war, the wages of skilled workers amounted to eight times those of labourers while "the best-paid workers" earned "much more" than the skilled workers, said Y. Manevich in the journal *Voprosy ekonomiki*.[101]

a theory. Is it not purely subjectivism to declare that some economic "law" determines that the wages of an admiral, or of a *prima ballerina*, should be twenty times as high as the wages of an average skilled worker?*

While Marxism rejects without reserve any theory by which the "quantity and quality of labour" determines payment in *socialist* society, it readily admits that in the transitional phase between capitalism and socialism differences in payment may be maintained for purposes of obvious economic efficacity, where technicians, engineers and other indispensable specialists are concerned.[103] But Marxism explains that this is in no way an application of its principles but rather a *departure* from them (as also from the labour theory of value), and that this departure must disappear in due course. It further explains that this departure is a constant source of corruption, demoralisation and bureaucratisation, and that social and economic measures must be taken to restrict as much as possible the bureaucratic distortion which inevitably results from this phenomenon.[104]

New developments in economic thinking in the U.S.S.R.

The great industrialisation debate of the 1920s was the last opportunity for the development of economic thinking in the U.S.S.R. after the coming of the Stalin régime. The next two decades saw the stifling of all independent development of critical thought. The degeneration of Marxism into a form of apologetics transformed it at the same time into a form of scholasticism incapable of responding to genuine and fresh problems otherwise than with a sterile juggling of quotations.

But the advance of Soviet economy and technique itself threw up problems which this scholasticism proved unable to solve. Even before Stalin's death there was to be observed, accordingly, a certain reawakening (extremely cautious, to be sure) of independent economic research, which actually culminated in a controversy marked by a certain amount of critical freedom, namely, the discussion about the choice to be made between different investment projects.[105]

After Stalin's death, and especially after the effects of Khrushchev's reforms had been exhausted,† Soviet economic thought underwent a true re-birth. A fairly substantial number of works appeared which made really new contributions. The main tendency, however, was clearly pragmatic. It is obviously less important to writers like Kantorovich, Novozhilov, Nemchinov, Malyshev, and so on, to discover the "economic laws" of the epoch of transition from capitalism to

* Theoreticians of the same kind depart even further from the labour theory of value when they claim to "measure" the quantity and "quality" of kinds of labour which, by definition, do not produce value, such as the labour of administrators, scholars, etc.

† See Chapter 15.

socialism than to find solutions to practical problems. Among the latter the problem of *rational fixing of prices* is clearly the most outstanding.*

The mathematician Kantorovich had, so far back as 1939, begun the development in the U.S.S.R. of the technique of linear programming and operational research. He had sought to rehabilitate the use of the differential calculus and of marginalism in the solving of microeconomic problems. In the discussion about prices which arose during the 1950s and then again in the 1960s, the theoretical contribution made by the Kantorovich-Novozhilov school remained extremely abstract; in fact, so far as these writers were concerned, as with others, attention was focused on certain rather elementary practical problems, such as the struggle to include a "rate of interest" (cost of using fixed capital) in the calculation of costs of production. The reforming effects of Liberman, tending to rehabilitate the intervention of the law of supply and demand in the formation of retail selling prices, were not connected so much with this school of thought as with that of Malyshev (called the "price of production" school).

In so far as what is involved is a mere technique of rationalising the distribution of consumer goods, and adapting the production of them more rapidly and efficiently to the needs of consumers, no *a priori* objection can be brought against it. However, the theoretical, political and social context in which the adoption of this technique is taking place is that of a more and more thoroughgoing revision of the Marxist premises of economic planning in the transition period between capitalism and socialism. In *this* context, the reforms in question are fraught with risks affecting the cohesion of the planning system taken as a whole.

What the Soviet economists are actually trying to find is a system of *automatic response*, of self-regulating factors which would make it possible to obtain optimum economic results independently of any conscious human intervention. Reacting with justification against bureaucratic hyper-centralisation, and rejecting for socio-economic reasons which are no less obvious the ideal solution of democratic control by the mass of producers and consumers, they can do nothing but rehabilitate to an increasing degree the automatic functioning of the market. Thus adjustment of supply to demand, in the sphere of consumer goods, is sought by way of providing enterprises with material "incentives" and, at least in theoretical writings, a "striving for the average profit" on the part of each "Soviet firm" is already openly envisaged.[107]

From this moment onwards, however, the pressure of the technocrats and managers, "materially interested" in "maximum profit", to extend "free price-formation" from the sphere of consumer goods to

* See an excellent summary of this discussion in the book by Henri Denis and Marie Lavigne.[106]

that of capital goods will become stronger and stronger, because it is obvious that so long as the prices of capital goods are "administrative prices", that is to say, planning devices intended to channel investment by the enterprises in determined directions, enterprises will remain a long way away from the "maximum profit" which could be achieved with "free prices". From the moment, however, when supply and demand determine the prices of capital goods as well as consumer goods, the entire logic of planning will start to break up. From then onward, investments will no longer be guided towards consciously-chosen priority talks, but will proceed according to "market mechanisms". Needless to say, this reorientation of investments, far from increasing the economic rationality of the system, would merely reproduce in it the classical blemishes of capitalist "free enterprise": waste through excess capacity, duplication in the employment of resources, widespread tendencies for production to run away with itself, and even periodical overproduction and unemployment.

The fact that the revived discussion among Soviet economists remains largely restricted to the supporters of "conservative" doctrines (that is, those inspired by the practice of the Stalin period) and the supporters of "renovating" doctrines which point increasingly in the direction of revisionism, shows the *limited character* of the renaissance of economic theory in the U.S.S.R. At the risk of indulging in excessive schematism, it would be possible to depict these two schools of thought as reflecting, respectively, the interests of the central bureaucracy and the interests of the bureaucracy and technocracy at enterprise level. The point of view of the proletariat is not represented in the discussion.

When the proletarian view is formulated it will doubtless take into account all the contributions of up-to-date technique, including those of higher mathematics, but it will at the same time reduce the problem to its proper proportions. It is not by any functioning of clockwork devices, excluding conscious human intervention, that the optimum growth of the planned, socialised economy can be achieved; transferring to the macro-economic level techniques which are valid for solving micro-economic problems leads inevitably to the worst of contradictions. Optimum growth is a function of socialist democracy, of discussion and of the trying-out in practice of different variants. It is above all a function of continuous control by the workers over the use of machinery, raw materials and finished products in their spheres of work. For this control is in the long run a much more effective instrument than the most precise calculations of "rates of interest on investment funds" for ferreting out unused production capacities. In order that it may function on a large scale it is not sufficient for the workers to be materially interested (which can be arranged within the framework of a system of self-management). It is further necessary that they possess social and political freedom and make use of it on as extensive a scale as possible, and that the entire political climate should encourage them to do this.*

The end of political economy

Every science is an instrument of knowledge, an attempt to reply to certain questions. The questions which political economy endeavours to answer—what is value? What is the source of capital and surplus value? How are wages determined? What is the influence of the circulation of money on prices and the state of business? How does reproduction operate? etc.—are born with commodity production and money economy, and will therefore die with them.

It was not accidental that Marx sub-titled *Capital*, "A critique of political economy", and that his preparatory work for *Capital* was called: "Fundamental features of a critique of political economy" *(Grundrisse der Kritik der politischen Ökonomie)* for Marx, political economy was essentially an ideology. Just as there is no "Marxist philosophy", so there is no "Marxist political economy". Marx's work *goes beyond* these two great ideologies of his age; beyond one in the Marxist theory of knowledge (materialist dialectics); beyond the other in Marxist economic theory (dialectics of the evolution of human societies).

From the disintegration of philosophy by Marx two lines of enquiry open out: the positive natural sciences, on the one hand, and dialectics, on the other. Similarly, the surpassing of political economy leaves behind two survivals: the applied economic sciences (organisation of industrial and agricultural production, sciences of organisation in general) and Marxist economic theory.

Marx himself, and after him Rosa Luxemburg, Hilferding, Bukharin and Preobrazhensky, are quite definite on this point. Political economy withers away together with the economic categories it tries to explain:†

* The Soviet economist V. V. Novozhilov makes use of a comparison between present-day industrial economy and the cybernetic mechanisms based on feedback, in order to "show" that the more complex an economic system is, the more it needs centralised management.[108] He does not seem to notice the question-begging which obviously underlies his reasoning, for what he has not previously proved is his view that an economy which is alleged to be socialist can actually be managed by more or less autocratic self-regulating mechanisms, independently of the conscious choices made by the producers and consumers. His reference to Marx and Engels is all the more unfortunate in that they, unlike Novozhilov and his school (as also Malyshev's) explicitly rejected the use of calculations based on the law of value and "prices of production" as the foundation for the system of distribution in a post-capitalist society.[109]

† "With the liquidation of the law of value in the domain of the economy, the old political economy is also liquidated," declared Preobrazhensky. And Rosa Luxemburg says that in Marxist theory political economy attained its perfect form but also its end as a science.[110]

"Once for all I may here state that by classical political economy I understand that economy which, since the time of W. Petty, has investigated the real relations of production in bourgeois society, in contradistinction to vulgar economy, which deals with appearances only . . ."—adding that this political economy shows itself incapable of penetrating the ultimate secrets of value.[111] Lenin, however, seems to reject this view. Referring to a definition by Engels, he supposes that a *new*, "socialist" political economy will apply to a fully developed socialist society.[112]

And in this connection he asks: will not the equilibrium equation $c\mathrm{II} = v\mathrm{I} + s\mathrm{I}$ apply in communist society? By analysing this question we grasp the precise sense in which political economy withers away by being transcended. It goes without saying that so long as commodity production exists, economic science continues to exist as an instrument for knowing reality. It thus remains fully applicable in a society in transition from capitalism to socialism, and in the first phase of socialist society itself. But when this process of withering away of categories has been *completed*, no place remains for an "economic doctrine" comparable to Marxist doctrine, as a science of *present-day reality*; it will continue to exist only as an instrument for knowing the *past*, and a safeguard against possible future catastrophes. There will be nothing more to "explain". All economic relations will have become transparent. In so far as the formula $c\mathrm{II} = v\mathrm{I} + s\mathrm{I}$ is an equation between *values*, exchange-values, capital, it will obviously have lost all validity in a society based on plenty, in which economic categories will have disappeared.

What will undoubtedly continue to exist for a long period, down to the time when all economic calculation becomes superfluous, will be the need to measure the replacement needs of the stock of machinery, first in amounts of labour and then, when the age of plenty has begun, in *material quantities*. What will continue to exist will thenceforth be the need to calculate the utility or disutility of a particular rate of replacement, no longer in "value", but in accordance with men's conscious choices, giving priority of human considerations freed from all "iron laws". This "survival" of political economy will be a "positive natural science", a science which will undoubtedly integrate the laws of organisation and the theory of communication with the laws of individual and social psychology, mental and physical hygiene, etc. It is difficult to prophesy what will be the forms assumed by this "positive science". What is certain is that, by virtue of the questions it will seek to answer, it will have little in common with past and present economic theory, with bourgeois political economy, or with the Marxist criticism of it. Marxist economists can claim the honour of being the first category of men of learning to work consciously towards the abolition of their own profession.

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107. Particularly in Malyshev's writings.
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109. Cf. Marx: *Das Kapital*, Vol. III, pt. 1, p. 155 of the first German edition, by Meissner.
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INDEX