

THE RESTORATION OF CAPITALISM IN THE SOVIET UNION

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FOREWORD

This book is an analysis of the economic system which was developed in the USSR after the “economic reforms” of 1965-66 – an analysis made on the basis of a mass of evidence taken almost exclusively from official Soviet economic journals.

Taking into account the virtual abolition of centralised economic planning, the introduction of profit as the regulator of production, the vesting of effective ownership and “hiring and firing” rights in industrial management, and the inequitable distribution of enterprise profit between managerial and shop floor personnel, the author reached the conclusion – as the title indicates – that by the 1970s the soviet economy had become essentially a restored capitalist system masquerading under red flags which are no longer appropriate.

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INTRODUCTION

After the Russian Revolution of November 1917, the official ideology of what became the Union of Soviet Socialist Republics was Marxism-Leninism.

According to Marxism-Leninism, a **capitalist society** is one in which

- 1) the means of production – factories, land, etc., – are owned by individuals or corporate groups of individuals called capitalists;
- 2) this class of capitalists holds political power by controlling the state apparatus;
- 3) production is regulated by the profit motive; and
- 4) exploitation occurs, in that capitalists live, partly or wholly, on the labour of others, i.e., of their employed workers.

On the other hand, according to Marxism-Leninism a **socialist society** is one in which

- 1) the means of production are owned collectively by the workers;
- 2) this class of workers holds political power by controlling the state apparatus;
- 3) production is planned by the state; and
- 4) exploitation – the process of living partly or wholly on the labour of others – has been eliminated.

On the basis of these definitions, Marxist-Leninists describe the society which was constructed in the Soviet Union in the period following the revolution as a **socialist society**.

In the years which followed the revolution, the political struggle to prevent the construction of a socialist society and, when such a society had been built, to bring about the restoration of a capitalist society, may be divided into a number of phases.

The First Phase

The **first phase**, from 1917 to 1921, took the form of an **armed civil war**, combined with armed intervention on the part of a considerable number of foreign states and political struggle against the Communist Party by openly anti-Soviet political parties, such as the Kadets and Mensheviks.

The Second Phase

With the defeat of the whiteguard armies and the suppression of

the openly anti-socialist parties on the grounds of their collaboration with the counter-revolutionary armed forces, the second phase of the struggle began in 1921. In this second phase, the political opposition to the construction of socialism still had an open character, but was now carried on by opposition factions within the sole legal political party, the Communist Party. The form of this phase was, however, necessarily different from that of the first phase, in that the oppositionists now professed themselves to be “socialists” and “Marxists”.

A key point in the line of the opposition in the 1920s, for example, was that it was impossible to construct socialism in a single country – from which the conclusion followed either that any attempt to transform society in the Soviet Union should be deferred until the advent of socialist revolution in Western Europe, or that the Soviet government should “fulfil its internationalist duty” by ordering the Red Army into Western Europe to “assist” the workers there to overthrow capitalism.

The resistance to these opposition policies was led by Josef Stalin, who held from 1922 to 1952 the important post of General Secretary of the Communist Part of the Soviet Union, and they were eventually rejected by an overwhelming majority of Communist Party members.

The Third Phase

In 1927 the political defeat of the opposition and expulsion from the Soviet Union of its most prominent leader, Leon Trotsky, forced the remaining members of the opposition to the view that open political challenge to the policies of the leadership around Stalin was unlikely to achieve success in the near future. They therefore ceased open opposition, condemned their “former errors” and promised to cease all factional activity. For the first time in its history there appeared to be political unanimity within the Communist Party.

In reality, however, the struggle of the oppositionists had merely entered a new, third phase, in which they worked to secure the appointment of their members to influential positions, while at the same time plotting the elimination of those whom they regarded as their irreconcilable political opponents by methods of terrorism. The opposition had become, as Stalin expressed it, “a conspiratorial and terrorist organisation”.

This incontrovertible historical fact has been concealed by the almost universally accepted myth that, at least from this time on, Stalin functioned as a “dictator” with “absolute powers”, and this myth was itself the product of the “cult of personality” built up around Stalin by the concealed opposition from 1934.

Roy Medvedev, whose “history” of this period is virulently hostile towards Stalin, points out that the founder of the “cult” was **Karl Radek**, who admitted to treason against the Soviet state at his public trial in 1937:

“The first issue of ‘Pravda’ for 1934 carried a huge two page article by Radek, heaping orgiastic praise on Stalin. The former Trotskyite, who had led active opposition to Stalin for many years, now called him ‘Lenin’s best pupil, the model of the Leninist Party...’ This seems to have been the first large article in the press specifically devoted to adulation of Stalin, and it was quickly reissued as a pamphlet in 225,000 copies, an enormous figure for the time” R. A. Medvedev: “Let History Judge”; London; 1972; p. 148). And one of the most fervent and sickening exponents of the “cult” was none other than **Nikita Khrushchev** who was in 1956 allotted the main role in denouncing it:

“Comrades, we have heard at our Eighteenth Party Congress a report of struggle....led by our Party and its Stalinist Central Committee, directed by the genius of our great guide and leader, Comrade Stalin... Our victory in defeating the fascist agents – all these despicable Trotskyite, Bukharinites and bourgeois nationalists – we owe above all to the personal efforts of our great leader Comrade Stalin. The Communist Party of the Ukrainian Bolsheviks... stand solid like a wall of steel around the Stalinist Central Committee around its beloved leader – our great Stalin. The devotion of the Bolsheviks of the Ukraine to Comrade Stalin reflects the boundless confidence and devotion which he enjoys among the whole Ukrainian people... The Ukrainian people have...rallied closer than ever around the Bolshevik Party and around our great leader, Comrade Stalin... Under the leadership of Comrade Stalin, the Bolsheviks of the Ukraine

have achieved great successes... Only as a result of the special attention paid by Comrade Stalin to the development of Ukrainian culture, have we achieved such momentous victories in the development of culture. That is why the Ukrainian people proclaim with all their heart and soul, with the utmost affection and devotion: 'Long live our beloved Stalin!'.... Throughout the Soviet Union the Bolshevik ranks are now more firmly welded than ever... in their loyalty to...their leader and teacher, the friend of the Ukrainian people, Comrade Stalin... Long live the towering genius of all humanity, the teacher and guide who is leading us victoriously to communism our beloved Comrade Stalin!" (N. S. Khrushchev: Speech at 18th. Congress CPSU, March 1939, in: "The Land of Socialism Today and Tomorrow"; Moscow; 1939; p. 381, 382, 383, 389, 390).

That Stalin's frequently expressed scorn for the "cult of personality" was perfectly genuine – even though, as a prisoner of the concealed opposition majority, he was unable to stop it – is illustrated by his shrewd observation to the German author Lion Feuchtwanger in 1937:

"I spoke frankly to him (Stalin – WBB) about the vulgar and excessive cult made of him, and he replied with equal candour ... He thinks it is possible...that the 'wreckers' may be behind it in an attempt to discredit him". (L. Feuchtwanger: "Moscow 1937"; London; 1937; p. 93, 94-5).

It was the dissatisfaction openly expressed by Stalin at the inactivity of the state security organs in relation to acts of terrorism which led him to allot to his personal Secretariat, headed by Alexandr Poskrebyshv special investigative functions. And it was the evidence uncovered by this body and passed on to the state security organs which forced the latter to put on trial a number of leading opposition elements in 1936-38, including the former head of state security, Genrikh Yagoda. Following a preconceived plan, the defendants admitted to treason in open court, while their as yet undis-

covered fellow conspirators heaped abuse on their heads.

Under their new chief, **Nikolai Yezhov**, who was also a member of the opposition conspiracy, from the autumn of 1936 the state security organs became extremely “active” instituting a reign of terror which resulted in the arrest of many honest Communists and their imprisonment or execution without trial.

Although the “cult of personality” enabled the blame for the crimes of the **“Yezhovshchina”** to be laid upon Stalin’s “psychopathological suspiciousness”, when historical fact is dissected from propaganda it reveals that Stalin carried on a long struggle against the conduct of the state security organs under Yezhov which resulted in the latter’s dismissal in late 1938 (and later arrest) together with his replacement by a trusted colleague of Stalin’s, **Lavrenti Beria**. Contrary to the allegations later made by Khrushchev and others, during the whole period in which Beria was People’s Commissar for Internal Affairs and in charge of state security – from December 1938 to January 1946 – not one Communist of any prominence was arrested by the NKVD. On the contrary, under Beria the NKVD was purged of the officials responsible for the “Yezhovshchina”, was reorganised, and carried out a review of the cases of political prisoners sentenced under Yezhov, as a result of which large numbers were rehabilitated and released:

“Beria soon made almost a clean sweep of the old NKVD. The few who had survived from Yagoda’s time... now followed their colleagues to execution... By March 1939 Beria’s men were everywhere in power; his own Georgian following held many of the major posts.... The appointment of Beria is usually taken as a convenient date to mark the end of the Great Purge...

The gross result of Beria’s assumption of the NKVD was that a proportion of those in prison awaiting trial were released... In the towns and villages of the Soviet Union, the pressure of haphazard mass arrests greatly eased.” (R. Conquest: “The Great Terror”; Harmondsworth; 1971; p. 623-4, 626, 627). “The purge is really ended at last, as has already been indicated by the replacement of Yezhov by Beria at the Ministry of Internal Affairs, by the

execution of five GPU officials at Kiev for gross abuse of power..., by the present trial in a mid-Siberian town of four GPU officials for arresting over 150 children, some under 12, as terrorists, etc., under Article 58, by a play now on in Moscow exposing the abuses of the purge to enthusiastic audiences, and, finally, by the return of political prisoners in hundreds, if not in thousands" ("The Times", February 27th, 1939; p. 11).

Although the "cult of personality" which they had built up around Stalin had many advantages for the conspirators, it also had serious disadvantages. Although in a minority, Stalin and his political allies utilised every "harmless" task allotted to them by the majority to castigate any proposals for the modification of socialist society in what they regarded as a capitalist direction:

"In proposing that the MTSs (Machine and Tractor Stations WBB) should be sold to the collective farms as their property, Comrades Sanina and Venzher are suggesting a step in reversion to the old backwardness and are trying to turn back the wheel of history.... The outcome would be, first, that the collective farms would become the owners of the basic instruments of production; that is, their status would be an exceptional one, such as is not shared by any other enterprise in our country, for, as we know, even the nationalised enterprises do not own their instruments of production... Such a status could only dig a deeper gulf between collective-farm property and public property, and would not bring us any nearer to communism, but, on the contrary, move us farther from it. The outcome would be, secondly, an extension of the sphere of commodity circulation, because a gigantic quantity of instruments of production would come within its orbit is the extension of the sphere of commodity circulation calculated to promote our advance towards communism? Would it not be truer to say that our advance towards communism would only be retarded by it?... Engels, in his 'Anti-Dühring',

convincingly shows that the existence of commodity circulation was inevitably bound to lead... to the regeneration of capitalism.” (J. V. Stalin: “Economic Problems of Socialism in the USSR”; Moscow, 1952; p. 100-2).

And the existence of the “cult of personality” made it necessary for the opposition majority to give the fullest and most favourable publicity to such attacks on their programme!

Furthermore, while the opposition majority could rely on the minority around Stalin adhering to the Communist Party principle that a decision of the majority was binding on the minority, who were prohibited from expressing public disagreement with it, this principle of “democratic centralism” is held by Marxist-Leninists to be valid only so long as they recognise the Communist Party as one based essentially on Marxism-Leninism, as one continuing to apply Marxist-Leninist principles to the construction of socialism. Had the opposition used, during Stalin’s lifetime, their majority on the leading organs of the Communist Party to initiate measures which clearly undermined the basis of socialist society in the Soviet Union – measures of the kind undertaken after Stalin’s death, that is – then the danger arose of the minority headed by Stalin saying: “The CPSU is no longer a Marxist-Leninist Party, but a revisionist party dominated by traitors to socialism; therefore, loyalty to Marxism-Leninism compels us to denounce publicly its majority leadership and to appeal to the rank-and-file of the Party and the working class to save socialism by repudiating these revisionist leaders”. This danger to the opposition programme – a danger greatly enhanced by the “cult of personality” around Stalin – prevented them from using their majority, during Stalin’s lifetime – to do much more to undermine the basis of socialism than to increase the economic and social differentials between management, official and intellectual workers on the one hand and the mass of workers on the other, so creating a privileged stratum which could provide in future a social basis of support for the restoration of capitalism.

Despite the frustrations experienced by the opposition during Stalin’s lifetime – frustrations which were virulently expressed in Khrushchev’s “secret speech” to the 20th. Congress of the CPSU in 1956 – the organisation of a terrorist attack upon Stalin was rendered extremely difficult by his loyal bodyguard. A carefully laid

plan was elaborated in conjunction with the German intelligence service to take advantage of the German invasion of 1941 by removing Stalin from office on the grounds that the initial Soviet military reverses were due to his “incompetence”; but here again the opposition was out-manoeuvred and compelled to recognise Stalin, at least for the rest of his life, as “the architect of Soviet victory”.

The Fourth Phase

The fourth phase of the political struggle to destroy socialism in the Soviet Union opened with the death of Stalin in March 1953. Shortly afterwards Nikita Khrushchev was appointed First Secretary of the Communist Party, and in 1955 also Chairman of the Council of Ministers (“Prime Minister”).

From one point of view the Khrushchev regime must be seen as an intermediate between the socialist society which existed in the Soviet Union prior to this period and the “economic reforms” introduced under the later Brezhnev regime. Thus it was responsible for a series of preparatory measures which were politically necessary before these “economic reforms” could be initiated. These were:

1) the denigration of Stalin, which allowed measures to be taken, in the name of “creative Marxism-Leninism”, which were in direct conflict with Stalin’s expressed political positions;

2) the removal from positions of influence – or, in the case of Lavrenti Beria, the physical elimination – of Stalin’s remaining political allies: Vyacheslav Molotov, Lazar Kaganovich, Lavrenti Beria;

3) the introduction of a degree of liberalism, associated with the attacks on the “dictatorship of Stalin”, permitting Evsei Liberman and other economists to organise a campaign for “economic reforms” which received official endorsement in 1962; and

4) the introduction in 1964 of a pilot scheme for the “experimental” application of the economic reform in limited fields.

That the Khrushchev regime was not merely a preparation for the Brezhnev regime, however, is demonstrated by the fact that Khrushchev’s successors were compelled to wage a fierce political struggle against him and his supporters and, when this had been victorious, make him an “unperson”.

This conflict of interest was basically between two groups of embryonic capitalists: one group, centred mainly in the Russian Republic and composed mainly of high managerial personnel involved

in heavy industry, was represented politically by the faction around Brezhnev; the other group, composed mainly of high managerial personnel involved in light industry, was represented politically by the faction around Khrushchev.

The policy differences on the degree to which resources should be directed respectively to the heavy goods industries and the consumer goods industries, were accompanied by foreign policy differences. The Khrushchev faction, representing the economically less powerful embryonic capitalists involved in light industry, felt it necessary for the Soviet Union to follow a foreign policy which amounted in fact to subservience to the United States, while the Brezhnev faction stood for an “independent” foreign policy.

In October 1964 the embryonic capitalists involved in heavy industry in alliance with the military felt their position strong enough to jettison the internal and foreign policies of the Khrushchev regime, together with their author.

The Fifth Phase

The fifth phase of the struggle against socialism in the Soviet Union thus began with the appointment of Leonid Brezhnev as General Secretary of the Communist Party of the Soviet Union in 1964 (to which was added, in June 1977, the post of Head of State).

This phase represented the culmination of the long struggle against socialism in the Soviet Union: the introduction of “economic reforms” which, while claiming to “carry forward the development of socialism”, in fact dismantled the basis of socialist society and replaced it by a basis which was essentially one of capitalism, although differing in form from that of older capitalist countries in the West.

Space prevents the documentation of the brief history of the struggle against socialism made in this introduction, which is intended merely to make more intelligible the analysis which follows. An exception has been made of the “Leningrad Affair” of 1949, which is analysed in the appendix Number 3, since this has a special relevance in that it represented an abortive attempt during Stalin’s lifetime to introduce the “economic reforms” adopted after his death.

It is the main aim of this book to analyse the character of the “reformed” economic system, doing so on the basis of the ideology of Marxism-Leninism (to which, as has been said, the “Soviet”

leaders continued to claim adherence) and by drawing on material from official Soviet sources – principally economic journals which, having a restricted and specialised readership, are frequently more frank than the mass media.

It is regretted that the extensive documentation which has been included does not make for easy reading, but without it the book would be no more than a valueless personal opinion. A postscript brings events up to the 1990s – the throwing off of the “socialist” mask and the liquidation of the Soviet Union itself.

1: The Abolition of Centralised Economic Planning

Under the **socialist** system of society which formerly existed in the Soviet Union, production was regulated **in a planned way** through detailed **directives** transmitted to enterprises by the central state apparatus in accordance with the current economic plan:

In the case of socialised production... society distributes labour-power and means of production in the different branches of production (K. Marx: “Capital”, Volume 2; London; 1974; p. 362).

Our plans are not forecast plans, not guess-work plans, but **directive** plans, which are **binding** upon the leading bodies and which **determine** the trend of our **future** economic development on a **country-wide** scale (J.V. Stalin: Political Report of the Central Committee to the 15th. Congress of the CPSU (B), in: “Works”, Volume 10; Moscow; 1954; p. 335).

According to contemporary Soviet propagandists, the aim of the “economic reform” instituted from 1965 on was to **“improve”** and **“consolidate”** – even **“perfect”** – centralised economic planning:

A number of measures are envisaged to raise the scientific standards of state planning of the economy (A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives in Industrial Production”, in: “Izvestia” (News), September 28th., 1965, in M.E. Sharpe (Ed.): “Planning, Profit and Incentive in the USSR”, Volume 2; New York; 1966; p. 15).

“The economic changes signify improvement of national economic planning... The reform consolidates centralised planning”. (Editorial: “Economic Policy and Work for Communism”, in: “Pravda” (Truth), January 14th., 1966, in: “The Soviet Economic Reform: Main Features and Aims”; Mos-

cow; 1967; p. 9).

In fact, as will be shown, centralised economic planning, as it had existed under socialism, has been **eliminated** from the Soviet economy since the “economic reform”.

The first stage in the process leading to its elimination was an intensive **propaganda campaign** directed at centralised economic planning, which was denounced as “**obsolete**”, “**restrictive**”, “**bureaucratic**”, and, of course, “**due to Stalin’s distortion of socialism**”:

These shortcomings in economic management should be eliminated not by making planning more complicated, more detailed and more centralised, but by developing the economic initiative and independence of enterprises —Enterprises must be given broader initiative; they must not be bound by petty tutelage and bureaucratic methods of planning from the centre”.

(E.G. Liberman: “Cost Accounting and Material Encouragement of Industrial Personnel”, in: “Voprosy Ekonomiki” (Problems of Economics), No 6, 1955, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 7).

Stalin... substituted naked administration by fiat for economic instruments of directing the economy. Regulation of the use of financial resources by enterprises, where it is excessive and too detailed, should be eliminated, and enterprises should be given greater opportunity to manoeuvre with these resources (L. Gatovsky: “The Role of Profit in the Socialist Economy”, in: “Kommunist” (Communist), No. 18, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 95, 104).

The practice of petty tutelage should be eliminated (V.S. Nemchinov: “Making Enterprises Interested in More Intensive Plans”, in: “Voprosy ekonomiki” (Problems of Economics), No. 11, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 152).

“These norms (fixed by the central state planning authority – WBB) have largely become obsolete; they have turned into petty tutelage, binding the manager’s activities. The time has come to discard the obsolete forms of economic management based on directive norms”.

(V. Trapeznikov: “For Flexible Economic Management of Enterprises”, in: “Pravda” (Truth), August 17th., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 193-4).

“It will be necessary, above all, to...curb significantly the employment by higher bodies of purely administrative methods of managing enterprises and grant adequate independence to the enterprises (R. Belousov: “The Chief Thing is Economic Effectiveness”, in: “Pravda” (Truth), November 13th., 1964, in M.E. Sharpe (Ed.): op. cit., Volume 1; p. 221).

Guidance of the enterprises by means of administrative intervention in all the details is a very poor method that cannot yield good results (V. Belkin and I. Berman: “The Independence of the Enterprise and Economic Stimuli”, in: “Izvestia” (News), December 4th., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 225).

Directors have at their disposal certain material and monetary resources, but the right to use them, to manoeuvre with them, has been quite limited. Excessive tutelage on the part of superior organisations has fettered the initiative of the personnel (V. Garbuzov: “Finance and Economic Stimuli”, in: “*Ekonomicheskaya gazeta*” (Economic Gazette), No 41, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p.48).

Purely administrative methods of economic guid-

ance have become widespread. The same is true of detailed regimentation of the work of the enterprise and of petty tutelage over it (L. Gatovsky: "Unity of Plan and Cost Accounting", in: "Kommunist" (Communist), No. 15, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 80).

Centralised planning cannot be identified with instructions on the quantity and assortment of produce to be manufactured by each enterprise... Attempts of this kind only clog the planning channels (E.G. Liberman: "The Plan, Direct Ties and Profitability", in: "Pravda" (Truth), November 21st., 1965, in: M.E. Sharpe (Ed.) op. cit., Volume 2; p. 172).

he centralised plan... must not be turned into a fetish, into an absolute, and regarded as a plan that must be carried out in every detail (A.M. Rumyantsev: "Management of the Soviet Economy Today: Basic Principles", in: "Soviet Economic Reform: Progress and Problems"; Moscow; 1972; p. 20).

In line with the theme that the propaganda campaign was aimed, not at the abolition of centralised planning but at its "improvement", the demands put forward in the campaign were that the number of central economic directives to enterprises should be "reduced" to a few "key indices":

Only the key indices, the decisive indices, should be handed down to enterprises, whose directors should be given greater rights and opportunities for economic manoeuvring within their scope (E.G. Liberman: "Planning Production and Standards of Long-term Operation", in: "Voprosy ekonomiki" (Problems of Economics), No. 8, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 65-6).

"The state plan should be freed of unnecessary indices. A. Zverev: "Against Over-simplification in

Solving Complex Problems”, in: “Voprosy ekonomiki” (Problems of Economics), No. 11, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 142).

We must free the enterprises from the excessive number of obligatory indicators (E.G. Liberman: “Are We Flirting with Capitalism? Profits and ‘Profits’ “, in: “Soviet Life”, July 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 309).

It was in this form that the “economic reform” was officially **adopted** by the **Central Committee of the Communist Party of the Soviet Union** in September 1965: “A serious shortcoming of industrial management is that administrative methods have superseded economic necessity... The powers of enterprises with regard to their economic activity are restricted. The work of enterprises is regulated by numerous indices which restrict the independence and initiative of the personnel of enterprises, diminish their sense of responsibility for improving the organisation of production... It has been found expedient to put a stop to excessive regulation of the activity of enterprises, to reduce the number of plan indices required of enterprises from above. (CC, CPSU: Decision “On Improving Management of Industry, Perfecting Planning and Enhancing Economic Incentives in Industrial Production”, in: “The Soviet Economic Reform: Main Features and Aims”, Moscow; 1967; p. 147).

The “**key indices**” which, it was proposed, should alone be handed down to enterprises were outlined by Prime Minister **Aleksei Kosygin**:

“In the future .. an enterprise will have the following indices established from above: the volume of goods to be sold; the main assortment of goods; the wage fund; the sum of profits and the profitability payments into the budget and allocations from the budget;.. the volume of centralised capital investments and commissioning of production ca-

pacities and fixed assets; the main targets for introducing new technology; the indices for supplying materials and equipment. All other indices of economic activity will be planned by the enterprise independently, without endorsement from a higher organisation (A.N. Kosygin: "On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives in Industrial Production", in: "Izvestia" (News), September 28th., 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 18-19).

Soviet propagandists **endorsed** the impression given in the Central Committee and by Kosygin:

"The state plan merely endorses the most essential indicators, ensuring balanced economic development, on the basis of which the enterprises independently organise economic activity (S. Khavina: "In the Crooked Mirror of Bourgeois Theories", in: "Ekonomicheskaya gazeta" (Economic Gazette), No 44, 1965, in: "The Soviet Economic Reform: Main Features and Aims"; Moscow, 1967; p. 141).

"The essence of the reform consists in concentrating centralised planning on formulating the most general indicators of national economic development, extending the independence of enterprises (A.M. Rumyantsev: "Management of the Soviet Economy Today: Basic Principles", in: "Soviet Economic Reform: Progress and Problems"; Moscow, 1972; p. 16).

To extend the economic independence and initiative of enterprises the number of plan assignments set to enterprises by ministries and departments has been reduced to a minimum (A.N. Yefimov: "Long-term Plans and Scientific Forecasts", in: *ibid.*; p. 72).

What was not made clear in these statements was that the "eco-

conomic reform” did not merely reduce the number of “indices” handed down to enterprises by the state “planning authority”: it transformed the remaining “indices” from directives, binding on the enterprises, to **“guidelines” which the enterprises could follow or not, as they chose.**

Evsei Liberman, Professor of Engineering Economics at the University of Kharkov and the principal architect of the “economic reform” expressed the true position with characteristic bluntness:

From the centre each enterprise should be given an **aim**.”

(E.G. Liberman: “Planning Industrial Management and Material Stimuli for its Development”, in: “Kommunist” (Communist), No. 10, 1956, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 32).

“Control figures will be drawn up.... in a generalised, value form, to be given to sectors of the economy. In the same form these control figures will be handed down to the enterprises, not as precise directives, but rather as guidelines for drawing up their plans (E.G. Liberman: “Plan, Direct Ties and Profitability”, in: “Pravda” (Truth), November 21st., 1965, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 51).

Thus, as enterprises were transferred to the “reformed” system of operation, they proceeded in practice **to plan their own production** – even as to the types and qualities of commodities that they would produce:

“These enterprises (i.e., those working under the “reformed” system – WBB) **now draw up their production plans themselves”**.

(V. Sokolov, M. Nazarov and N. Kozlov: “The Firm and the Customer”, in: “Ekonomicheskaya gazeta” (Economic Gazette), January 6th., 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 251).

The result society needs is achieved by expanding the rights of enterprises in specifying the assort-

ment,... and so on... The new management system... extends the rights of enterprises in... studying the demand and changing assortment (A.M. Rumyantsev: "Management of the Soviet Economy Today: Basic Principles", in: "Soviet Economic Reform: Progress and Problems" Moscow; 1972; p. 21, 24).

The single approach to managing the economy is displayed... in granting enterprises equal rights to concretise the assortment of goods they produce...

It is the enterprises themselves that can and must draw (i.e., economic plans – WBB) up originally. Moreover these must be high and well-substantiated plans".

(P.B. Bunich: "Methods of Planning and Stimulation", in: *ibid.*; p. 36, 49).

"Five-year plans of enterprises and associations have become the basis for planning their activity"

(L.M. Gatovsky: "The Economic Reforms and the Stimulation of Technological Progress", in: *ibid.*; p. 171).

"Enterprises decide what range of goods to produce in terms of physical quantities and total value of sales... and other economic indicators"

(B.I. Braginsky: "Planning and Management in the Soviet Economy", in: "The Soviet Planned Economy"; Moscow; 1974; p. 125-6).

Soviet economists refer to this "reformed" system of "economic planning" as "**planning from below**":

"The enterprise should actually become the basic organ for planning from below".

(E.G. Liberman: "Economic Levers for Fulfilling the Plan for Soviet Industry", in: "Kommunist" (Communist), No. 1, 1959, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 1; p. 48).

“The other way (of “economic planning” – WBB) **is to encourage the initiative of the production collectives** (i.e., the personnel of productive enterprises – WBB) **in every possible way, to execute in deed and not in words planning from below”**
(R. Belousov: “The Chief Thing is Economic Effectiveness”, in: “Pravda” (Truth), November 13th, 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 220).

Since the “economic reform”, therefore, the detailed central “economic plan” can only take the form of **totalisation of the individual economic plans of all the enterprises**.

But since the enterprises frequently change their economic plans during the course of a “planning period”, prices fluctuate, and so on, the central “economic plan” produced at the beginning of this period bears little relation to the final economic result:

“The work of drawing up five-year plans from the enterprises up to the USSR Gosplan (State Planning Committee – WBB) **was not completed in the past five years”**.
(N. Y. Grogichinsky: “The Economic Reform in Action”, in: “Soviet Economic Reform: Progress and Problems”, Moscow; 1972; p. 211).

“It is practically impossible to compile a Five-Year Plan”.

A. Komin: “Problems in the Methodology and Practice of Planned Price Formation”, in: “Plano-voe khoziaistvo” (Planned Economy). No. 9, 1972, in: “Problems of Economics”, Volume 16, No. 1; May 1973; p. 48).

“An objective assessment of the fulfilment of the plan is impossible... In fact, the planning of distribution never attains completed form. It is completed only with the end of the planning period... It is impossible to compile a national economic plan that is substantiated and balanced for all value indices... on the basis of physical indices and

prices... The five-year plan in terms of value indices essentially loses its meaning”.

(V. Kotov: “Prices: The Instrument of National Economic Planning and the Basis of the Value Indices of the Plan”. in: “Planovoe khoziaistvo” (Planned Economy), No. 9, 1972, in: “Problems of Economics”, Volume 16, No. 1; May 1973; p. 61, 62, 69).

Contemporary Soviet economists thus admit that the Soviet economy since the “economic reform” is characterised by “**indeterminacy**”, i.e., **anarchy**:

“The indeterminacy that is manifested in the probabilistic nature of the anticipated economic result does exist and is objectively inherent even in socialist society”.

(L. Veger: “Calculating Economic Effectiveness under Conditions of Indeterminacy”, in: “Voprosy ekonomiki” (Problems of Economics), No. 2, 1972, in: “Problems of Economics”, Volume 15, No. 4; August 1972; p. 41)

“Centralised planning in conditions of broad independence of enterprise is also faced with the need of elaborating methods of managing the economy marked by growing indeterminacy, probability (stochastics) of its processes”.

(A.M. Rumyantsev: “Management of the Soviet Economy Today: Basic Principles”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 23).

All this is not meant to suggest that the contemporary Soviet state has no “economic plans”, or that it no longer influences the direction of development of the Soviet economy. Like most orthodox capitalist states today, it draws up, from time to time, broad “economic plans”. These are, however, not imposed upon enterprises by means of directives. **The Soviet state endeavours to influence enterprises to follow, broadly, the lines of its current “economic plan” by the use of the same kind of “economic lev-**

ers” that are used by the state in orthodox capitalist countries:

“One of these far reaching measures should be the increased use of economic levers in influencing production”.

(E.G. Liberman: “Economic Levers for Fulfilling the Plan for Soviet Industry”, in: “Kommunist” (Communist), No. 1, 1959, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 55).

“The attempt to make broader use of economic levers and economic stimuli in planning is a healthy reaction against the administrative conception of a plan”.

(L. Alter: “Incentives Must be Linked with the Long-term Planning of an Enterprise”, in: “Voprosy ekonomiki” (Problems of Economics), No. 11, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 167).

“The time has come to discard the obsolete forms of economic management based on directive norms Economic influence is successfully employed even in capitalist countries In our conditions, when all the financial and economic levers are in the hands of the state, measures of economic influence will prove still more effective...

The general aim of the above proposals is to substitute a sum of economic influences, which would channel the enterprise’s activity, for control of each step of the enterprise executive through directives”.

(V. Trapeznikov: “For Flexible Economic Management of Enterprises” in: “Pravda” (Truth), August 17th., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 194, 195, 199).

“The putting into operation of flexible economic methods... presupposes that the centre of gravity be shifted from administration by injunction to eco-

conomic methods of guiding enterprises”.

(L. Leontiev: “The Plan and Methods of Economic Management”, in: “Pravda” (Truth), September 7th., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 208).

“The mastering of commodity-money relations in the planned socialist economy... means the establishment of a basically new mechanism, in which the system of economic levers connected with commodity-money relations functions as a tool of national economic planning...

The socialist state... guides the national economy and every enterprise with the help of a system of economic levers”.

(G. Kosiachenko: “The Plan and Cost Accounting”, in: “Finansy SSSR” (USSR Finances), No. 12, 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 232, 238).

“The main levers, which determine the development of the country’s economy, remain in the hands of the state”.

(N.K. Baibakov: “Tasks of Economic Planning in the New Conditions”, in: “Pravda” (Truth), October 29th., 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 100).

The precise mechanism of these “economic levers” will be discussed in later sections.

2: Profit as the Regulator of Production

The abolition of centralised economic planning as the regulator of social production in the Soviet economy required its replacement by **a different regulator**: this could only be **profit**.

Contemporary Soviet economists define profit in the Soviet economy as **an enterprise's surplus of income over expenditure**:

“Profit is formed directly from the difference between the price and cost of production”.

(L. Gatovsky: “The Role of Profit in a Socialist Economy”, in: “Kommunist” (Communist), no. 18, 1962, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 1; New York; 1966; p. 98).

Already, at the 22nd. Congress of the CPSU in 1961, First Secretary **Nikita Khrushchev** declared:

“We must elevate the importance of profit and profitability”.

(N.S. Khrushchev: Report on the Programme of the CPSU, 22nd Congress CPSU; London; 1961; p. 54).

This line was developed under the “economic reform” carried through by Khrushchev’s successors. General Secretary **Leonid Brezhnev** and Prime Minister **Aleksei Kosygin**:

“Let us consider profit, one of the economic instruments of socialism. A considerable enhancement of its role in socialist economy is an indispensable requisite for cost accounting”.

(Editorial: “Economic Policy and the Work of Communism”, in: “Pravda” (Truth), January 14th., 1966, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 11).

In fact, the term used to express the essence of the “economic reform” – **“cost accounting”** (khozraschot) – is defined by contemporary Soviet economists as **a method of management based on ensuring the profitability of each individual enterprise**:

“The essence of cost accounting is that any enterprise should cover its expenditures with its own income and should have a profit over and above this. The system of cost accounting makes every enterprise interested in obtaining a bigger profit”.
(L. Gatovsky: p. cit.; p. 90).

“Cost accounting (khozaschot) is a method of management applied at socialist enterprises which is based on measuring in money terms their inputs and results of their operation, on enterprises covering their expenditure with their own income, ensuring profitability”.
(A.M. Rumyantsev: “Management of the Soviet Economy Today: Basic Principles”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 12).

“Cost accounting is a key method for managing the economy which... is based on measuring costs in monetary terms against the results of production activity from income and ensuring profitability of production”.
(S. Kamenitsev: “The Experience of Industrial Management in the Soviet Union”; Moscow 1975; p. 130-1).

Under cost accounting, **profit** has been elevated to the role of **“the supreme criterion of the efficiency of an enterprise”**:

“A criterion that characterises to the greatest degree the operation of the enterprise... is profit”.

(V. Trapeznikov: “For Flexible Economic Management of Enterprises”, in: “Pravda” (Truth), August 17th., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 196).

“Profit serves as the most generalising criterion of the enterprise’s entire activity”.

(L. Leontiev: “The Plan and Methods of Economic

Management”, in: “Pravda” (Truth), September 7th., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 209).

“Profit generalises all aspects of operation”.

(E.G. Liberman: “Are We Flirting with Capitalism? Profits and ‘Profits’ “, in: “Soviet Life”, July in: M.E. Sharpe (Ed.) op. cit., Volume 1: p. 309).

“Profit reflects more fully and deeply important aspects in the operation of the socialist enterprises on a *khozraschot* basis Profit serves as an indicator of production efficiency at a given enterprise”.

(B. Sukharevsky: “New Elements in Economic Incentives”, in: “Voprosy ekonomiki” (Problems of economics), No. 10, 1965, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow, 1967; p. 76).

“Under socialism profit... expresses... the efficiency of the economic activity of each socialist enterprise”

(Editorial: “Economic Policy and Work for Communism”, in: “Pravda” (Truth), January 14th. in: *ibid.*; p. 11).

Nevertheless, contemporary Soviet sociologists, when writing of orthodox capitalist countries, continue to pour scorn on

“...attempts by experts in both the theory and practice of ‘human relations’ to conceal the fact that profit is the main goal and motive force of capitalist production. In their writings the concept of ‘profit’ is either not mentioned at all or approached as ‘the social test of the utility of the enterprise and of effective organisation”.

(N. Bogomolova: “Human Relations’ Doctrine: Ideological Weapon of the Monopolies”; Moscow, 1973; p. 63).

In fact, the particular aspect of profit which is taken by contem-

porary Soviet economists to express “the supreme criterion of the efficiency of an enterprise” is the “**index of profitability**” – the profit made by an enterprise in a year as a percentage of the value of its total) fixed and circulating) assets:

“If it is the profitableness of an enterprise as a whole that is assessed, it is advisable to relate profit to the value of the social productive assets the state placed at the disposal of the given enterprise.

By commensurating profit with the productive assets it is, in fact, the relative productivity of labour that is determined... It is quite natural that this accretion should be commensurated with the entire value of the fixed assets and circulating funds, inasmuch as they express all the resources applied in production”.

(E.G. Liberman: “Plan, Direct Ties and Profitability”, in: “Pravda” (Truth), November 21st., 1965, in: “The Soviet Economic Reform: Main Features and Aims”, Moscow, 1967; p. 55).

“The most generalised index of an enterprise’s activity is the index of profitability, computed as a ratio of profits to production assets”.

(P. Bunich: “Economic Stimuli to Increase the Effectiveness of Capital Investments and the Output-to-Capital Ratio”, in: “Voprosy ekonomiki” (Problems of Economics), No. 12, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 189).

As some Soviet economists have pointed out, the index of profitability is merely a euphemism for what is called, in orthodox capitalist countries, the “**rate of profit**”:

“The rate of surplus value measured against the total capital is called the rate of profit Surplus value and profit are actually the same thing and numerically equal”.

(K. Marx: “Capital”, Volume 3; London; 1974; p. 43, 48).

“This index (i.e., the index of profitability – WBB)... is widely used in capitalist countries (for this is neither more nor less than the rate of profit on invested capital)” (I. Kasitsky: “The Main Question: Criteria for Premiums and Indices Planned for Enterprises”, in: “Voprosy ekonomiki” (Problems of Economics), No. 11, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 139).

Contemporary Soviet economists assert that, **under the socialist system** which formerly existed in the Soviet Union, **profit** was regarded as only **of minor importance**:

“An obvious belittling and, at times, outright ignoring of the importance of profit... were characteristic of the period of the cult of Stalin’s personality... Profit... was regarded as a purely formal category”.

(L. Gatovsky: op. cit., p. 95).

And they attribute this to “lack of regard” for “immutable” economic laws during the period when Stalin was General Secretary of the CPSU:

“The problem which we now face in determining if profit should be the basic index in judging the work of an enterprise can be attributed in no small way to the lack of regard for the immutable law of economic construction during the Stalin era. This immutable law, regardless of the system under which it operates, is universal; an economy must produce more than is expended on production; and it is this principle, however unheeded it has been in the past, that theoretically provides the foundation for the acceptance of profits today in the Soviet Union”.

(L. Leontiev: “Pravda” (Truth), July 10th. 1964, in: J.L. Felker: “Soviet Economic Controversies”. Cambridge (USA); 1966; p. 77-8).

The implication that Stalin had a “lack of regard” for objective

economic laws is certainly untrue, although he did not regard most of them as “immutable”, but as relative to a definite historical period:

“Marxism regards laws of science – whether they be laws of natural science or laws of political economy – as the reflection of objective processes which take place independently of the will of man. Man may discover these laws, get to know them, study them, reckon with them in his activities and utilise them in the interests of society, but he cannot change or abolish them. The laws of economic development... are objective laws... One of the distinguishing features of political economy is that its laws, unlike those of natural science, are impermanent, that they, or at least the majority of them, operate for a definite historical period, after which they give place to new laws”.

(J.V. Stalin: “Economic Problems of Socialism in the USSR”; Moscow; 1952; p. 6. 7. 8).

In fact, what was regarded as “**of minor importance**” under the socialist system which formerly existed in Soviet Union was not the profit made **in Soviet society as a whole**, but that made by **individual enterprises or even** individual sectors of industry.

The “economic law” which Stalin is charged with disregarding is one invented by the new breed of Soviet economists: that in a socialist society **production should be regulated by the law of value, manifested in the profitability of individual enterprises.**

That Stalin **rejected** this concept is very true.

“Totally incorrect... is the assertion that under our present economic system... the law of value regulates the ‘proportions’ of labour distributed among the various branches of production. If this were true, it would be incomprehensible why our light industries, which are most profitable, are not being developed to their utmost, and why preference is given to our heavy industries, which are often less profitable, and sometimes altogether unprofitable. If this were true, it would be incomprehensible

why a number of our heavy industry plants which are still unprofitable... are not closed down, and why new light industry plants, which would certainly be profitable..., are not opened.

If this were true, it would be incomprehensible why workers are not transferred from plants that are less profitable, but very necessary to our national economy, to plants which are more profitable – in accordance with the law of value, which supposedly regulates the ‘proportions’ of labour distributed among the branches of production”.

(J.V. Stalin: *ibid.*; p. 27-8).

Since, under the socialist system, profits in general, both high and low, accrued to the state, what was of major significance was not the profitability of individual enterprises or of individual sectors of industry over a short term but **the profitability of the economy as a whole over a relatively long period:**

“If profitableness is considered not from the standpoint of individual plants or industries, and not over a period of one year, but from the standpoint of the entire national economy and over a period of, say, ten or fifteen years, which is the only correct approach to the question, then the temporary and unstable profitableness of some plants or industries is beneath all comparison with that higher form of stable and permanent profitableness which we get from the operation of the law of balanced development of the national economy and from economic planning...”

In brief, there can be no doubt that under our present socialist conditions of production, the law of value cannot be a ‘regulator of proportions’ of labour distributed among the various branches of production...

The aim of socialist production is not profit, but man and his needs”.

(J.V. Stalin: *ibid.*; p. 28-9, 86)

Contemporary Soviet propagandists claim that, in rejecting the

“distortions of economic theory associated with **Stalin**”, and in emphasizing **the importance of the profit of individual** enterprises, they are “returning to the concepts of Lenin”:

“V.I. Lenin pointed out that each enterprise must function on a profitable basis, i.e., it should completely cover its expenditures from its income and should make a profit”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives in Industrial Production”, in: “Izvestia” (News), September 28th., 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2, p. 21).

And since it was undoubtedly Lenin’s aim that Soviet society should advance to communism, these propagandists claim that, by “returning to Lenin’s concept **that every enterprise should function profitably**”, Soviet society is **“taking the Leninist road to communism”**.

It is, indeed, true that in January 1922 Lenin referred to

“...the urgent need to... make every state enterprise pay its way and show a profit”.

(V.I. Lenin: “The Role and Functions of the Trade Unions under the New Economic Policy”, in: “Collected Works”, Volume 33; Moscow; 1973; p. 185-6).

If, however, a few more words are quoted from this passage, the **outright distortion** of contemporary Soviet propagandists in presenting the enhancement of the role of profit under the New Economic Policy as a “measure for the development of socialism”, even of the “advance to communism”, becomes patently obvious:

“A free market and capitalism, both subject to state control (by a state representing the interests of the working class – WBB) are now being permitted and are developing; on the other hand, the socialist state enterprises are being put on what is called a profit basis...”

In view of the urgent need to... make every state enterprise pay its way and show a profit, and

in view of the inevitable rise in narrow departmental interests and excessive departmental zeal, this circumstance is bound to create a certain conflict of interests in matters concerning labour conditions between the masses of the workers and directors and managers of the state enterprises, or the government departments in charge of them. Therefore, as regards the socialised enterprises, it is undoubtedly the duty of the trade unions to protect the interests of the working people".
(V.I. Lenin: *ibid.*; p. 184, 185-6).

Thus, in contrast to the contemporary Soviet propagandists – who present the enhancement of the role of profit of individual enterprises as “a measure for the development of socialism”, even of “the advance to communism”, **Lenin** presented the similar temporary measure adopted as part of the New Economic Policy bluntly as an enforced, temporary retreat to capitalist economic principles which would inevitably create an antagonism of class interest between the masses of workers on the one hand and the enterprise directors and state departments on the other.

Under the new system of cost accounting, however, **profit** – now presented as “the supreme criterion of the efficiency of an enterprise” – has replaced centralised economic planning as **the regulator of social production**:

“A way out of the apparent contradictions has been suggested in our press in the form of a kind of automatic ‘self-regulator’... The role of such an automatic self-regulator, it is claimed, can be performed by profitability... In the profitability controversy some economists have based their objections to making it a regulator of social production on the contention that profit is a capitalist category. Such objections, of course, are untenable”.
(B. Sukharevsky: “On Improving the Forms and Methods of Material Incentives”, in: “Voprosy ekonomiki” (Problems of economics), No. 11, 1962, in: M.E. Sharpe (Ed.) *op. cit.*, Volume 1; p. 116-7, 118).

“Production will be subordinated to changes in profits”.

(G. Kosiachenko: “Important Conditions for Improvement of Planning”, in: “Voprosy ekonomiki” (Problems of Economics), No. 11, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 158).

“The utilisation of profit to achieve the aims of socialist production, its adaption to the planned guidance of the economy and to serving socialist distribution according to work, inevitably presupposes the elaboration of a special mechanism”

(B. Sukharevsky: “New Elements in Economic Incentives”, in: “Voprosy ekonomiki” (Problems of Economics), No. 10, 1965, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 78).

The “**economic levers**” mentioned in the last section, by which the Soviet state attempts to influence the economic activity of enterprises in the direction it desires, operate **through their effect on the profits of the enterprises:**

“The entire system of economic levers must be regulated... in such a way as to make it advantageous for enterprises to fulfil... the national economic plan”.

(V.S. Nemchinov: “Socialist Economic Management and Production Planning”, in: “Kommunist” (Communist), No. 5, 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 188-9).

“To exert effective economic influence on economic activity, **it is essential to choose a criterion that characterises to the greatest degree the operation of the enterprise and meets the interests of both the national economy and the personnel of the enterprise**... It is **profit** that constitutes such a criterion”.

(V. Trapeznikov: op. cit.; p. 196).

“It is possible... to set up the enterprise in such economic conditions whereby the enterprise, guided by its own interests, would choose the optimal course of fulfilling the economic plan...

Under conditions of cost accountability, the sum total of economic levers in the long run influences the enterprise through... profit”.

(B. Sukharevsky: “The Enterprise and Material Stimulation”, in: “*Ekonomicheskaya gazeta*” (Economic gazette), No. 49, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 205, 206).

3: The “Socialist Market”

Profit is realised, of course, not in the **production** of commodities, but in their **sale**:

“Profit is determined on the basis of the goods marketed, and not on the basis of those produced”.
(G. Kosiachenko: “The Plan and Cost Accounting”, in: “Finansy SSSR” (USSR Finances), No. 12, 1964 in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 1; New York; 1966; p. 245).

Thus, in order to realise their aimed-for profit, enterprises must gear their production of commodities to their assessment of the **market** for these commodities:

“Under socialism the market is... a sphere for the marketing of products – means of production and consumer goods manufactured by state and cooperative enterprises”.
(L. Gatovsky: “Unity of Plan and Cost Accounting”, in “Kommunist” (Communist), No. 15, 1965, in M.E. Sharpe (Ed.): op. cit., Volume 2; p. 88).

Regulation of social production by the profit motive means, in fact, **regulation by the market**:

“The market mechanism should be resorted to on a larger scale”.
(G. Kosiachenko: *ibid.*; p. 243).

“Without utilising the mechanisms of the socialist market..., it is impossible to ensure the operation of enterprises on the basis of complete *khozraschot*”.
(R. Rakitsky: “Bourgeois Interpretation of the Soviet Economic Reform”, in: “Voprosy ekonomiki” (Problems of Economics), No. 10. 1965, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 129).

“We must acknowledge that... the market mecha-

nism.... plays a regulating role in socialist production”.

(L. Konnik: “Planning and the Market”, in: “Voprosy ekonomiki” (Problems of Economics), No. 5, 1966, in: “Problems Of Economics”, Volume 9, No. 8; December 1966; p. 31).

The Soviet market is one where not only prospective buyers of a commodity but also prospective sellers – the enterprises which produce it – are in competition with one another – although most contemporary Soviet economists prefer to speak of “emulation” rather than competition in the case of the “socialist market”:

“The enterprise will compete for orders; the competition will be based on comparisons of guarantees of quality, delivery dates and prices”.

(E.G. Liberman: “The Plan, Direct Ties and Profitability”, in: “Pravda” (Truth), November 21st, in: M.E. Sharpe (Ed.) op. cit., Volume 2; p. 176).

“An individual or a collective engages in emulation with other individuals or collectives...

The economic reform and the introduction of the sectorial principle of managing industry have created favourable conditions for concrete emulation between enterprises in the same sector”.

(V.K. Fedinin: “The Economic Reform and the Development of Socialist Emulation”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 241, 244).

Thus, the forces of the “socialist market” are the economic forces of **supply and “demand”** which operate in an orthodox capitalist country:

“Market demands... are a major factor in determining proportions in the national economy...

Ruble control by the customer... is an effective economic lever in the struggle for better consumption properties and efficient inexpensive output...

The market is characterised at each given point in time by a definite correlation between demand

and supply...

Under socialism, since commodity production exists, the objective economic law of demand and supply (of their mutual conformity) operates.... Disregard for the law of demand and supply exerts a negative effect on the economy”.

(L. Gatovsky: *ibid.*; p. 85, 88, 89).

“Without utilising the mechanism of the socialist market and such of its categories as the current business situation,... supply and demand, it is impossible to ensure the operation of enterprises on the basis of complete *khozraschot*”

(B. Rakitsky; *ibid.*; p. 129).

“Today it is generally acknowledged that the problem of marketing and of market fluctuations continues even in the planned socialist economy”.

(L. Konnik: *ibid.*; p. 25).

Contemporary Soviet economists claim, like their counterparts in orthodox capitalist countries, that these market forces, operating through the profit motive, regulate social production in such a way as **to satisfy** – as far as existing productive resources at a particular time will permit – **the requirements of the people:**

“Increase of profit under socialism is one of the means for the achievement of the aim of socialist production – to satisfy most fully the requirements of the people”.

(L. Gatovsky: “The Role of Profit in a Socialist Economy”, in: “Kommunist” (Communist), No. 18, 1962, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 1; p. 92).

“Under socialism, profit... is an economic instrument for developing socialist enterprises and materially stimulating their activity...”

The main object of socialist production is to satisfy the people’s requirements.... Measures reinforcing the role of profit... are socialist measures

aimed at developing the economy and building communism”.

(Editorial: “Economic Policy and Work for Communism”, in: “Pravda” (Truth), January 14th., 1966, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 11).

Echoing Charles Wilson’s famous dictum: “What’s good for General Motors is good for the United States”, contemporary Soviet propagandists claim that **“what is profitable for each enterprise must be good for society”**:

“What is profitable to society as a whole will also be profitable to each production collective”.

(E.G. Liberman: “Planning Production and Standards of Long-term Operation”, in: “Voprosy ekonomiki” (Problems of Economics), No. 8, 1962, in: M.E. Sharpe (Ed.) op. cit., Volume 1; p. 66-7).

“The 1965 economic reform embodies one of the primary principles of the socialist economy: what is of benefit to society must be of benefit to each enterprise”.

(E.G. Liberman: “Plan, Direct Ties and Profitability”, in: “Pravda” (Truth), November 21st., 1965, in: “The Soviet Economic Reform: Main Features and Aims”, Moscow; 1967; p. 50).

“That which is good for society should be economically profitable for the enterprise and offer material incentives for its personnel.. This formula expresses the essence of the economic mechanism of the socialist system”.

(L. Gatovsky: “Unity of Plan and Cost Accounting”, in: “Kommunist” (Communist), No. 15, 1965, in: M.E. Sharpe (Ed.) op. cit., Volume 2; p. 72)

It is, of course, true that the gearing of production to the market through the profit motive ensures, within the limits of productive resources at a particular time, the gearing of production to the **de-**

mand” of the consuming public. But the “demand” to which it is geared is “**effective demand**”, that is, demand expressed in terms of the money which potential consumers are **able and willing to expend** in the market on commodities.

This is admitted by contemporary Soviet propagandists:

“Within the bounds of commodity-money relations, the concept of preference for goods... is changed into the relatively independent form of money demand. The magnitude of any need, expressed on the basis of demand, depends on factors like population income”.

(A.M. Rumyantsev: “Management of the Soviet Economy Today: Basic Principles”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 28).

Marxism-Leninism holds that unequal distribution of income is inherent in capitalist society, so that this causes “effective demand” to bear little resemblance to real social demand, to the real requirements of the consuming public – leading, for example, to the building of superfluous office blocks while working people experience a fundamental housing shortage, since the **social** demand for houses is overridden by the **effective** demand for office blocks.

That this anomaly exists in the Soviet Union since the “economic reform” is **admitted** by some contemporary Soviet economists:

“Uneven distribution of incomes between different sections of the population results in that the groups in the lower brackets do not fully satisfy their prime needs, while groups in the higher brackets are able to satisfy less essential needs”.

(A.M. Rumyantsev: *ibid.*; p. 28).

“Up until recently, the living standard was planned for two basic groups: for workers, employees and collective farmers. Today it is also necessary to calculate the rise in the standard of living for population groups with different income levels”.

(P. Krylov & M. Chistiakov: “Problems in Improv-

ing the Methods of National Economic Planning”, in: “Planovoe khoziaistvo” (Planned Economy), No 1, 1972, in: “Problems of Economics”, Volume 15, No. 4; August 1972; p. 33).

“Industrial enterprises try to curtail the production of relatively unprofitable and especially totally unprofitable items despite the fact that they enjoy high consumer demand”.

A. Levin: “Economic Incentives for Meeting Consumer Demands”, in: “Voprosy ekonomiki” (Problems of Economics), No. 4, 1972; in: “Problems of Economics”, Volume 15, No. 6; October 1972; p. 5).

“The Ministry of the Meat and Dairy Industry of the Tadjik SSR, in the quest for high profits for its enterprises in 1970 and 1971, reduced the production of inexpensive products that were in stable demand among the population and unjustifiably increased the production of more expensive products. As a result, the enterprises of this Ministry obtained millions of rubles of profit in excess of the plan”.

(S. Starostin & G. Emdin: “The Five Year Plan and the Soviet Way of Life”, in: “Planovoe khoziaistvo” (Planned Economy), No. 6, 1972, in: “Problems of Economics”, Volume 15, No. 10; February 1973; p. 95-6).

“Analysis of trends in the development of the Soviet economy indicates a gradual change in the character of the differential of the population with respect to income level. Inevitably there is a rise in the share of those groups that have relatively high incomes. At the same time, there is a reduction in the share of families for which a comparatively low savings norm is characteristic”.

(T. Ivensen: “Problems in Forecasting the Monetary Savings of the Population”, in: “Nauchnye

doklady vysshei shkoly: Ekonomicheskie nauki” (Scientific Reports of Higher Schools: Economic Science), No. 11, 1973, in: “Problems of Economics”, Volume 17, No. 2; June 1974; p. 66-7).

This question will be discussed in more detail in later sections.

The basing by enterprises of their production plans on their assessment of the market has necessitated the development of such features of orthodox capitalist countries as **market research**:

“To ensure success in the management of the national economy, it is essential to conduct market research for practical purposes”,
(L. Gatovsky: *ibid.*; p.

salesmanship:

“Business is much better at the stores which have the best trained staffs of sales assistants... The motto there is: ‘Not a single customer must leave without a good purchase’ “.

(V. Sokolov, M. Nazarov & N. Kozlov: “The Firm and the Customer”, in: “Ekonomicheskaya gazeta” (Economic Gazette), No. 1, 1965, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 1; p. 255, 256).

and **advertising**:

“Business is much better at the stores which... advertise best”.

(V. Sokolov, M. Nazarov & N. Kozlov: *ibid.*; p. 255).

“Advertising, by influencing the taste of purchasers, is capable of easing the planning of production and the study of consumer demand... Proper advertising accelerates commodity turnover...

We all have an interest in good advertising. But improvement of its artistic and technical level will require an increase in the money spent on it... Such expenditure will pay for themselves with interest”.

(L. Pekarsky & S. Anufrienko: “The Wings of an

Experiment", in: "Komsomolskaya pravda" (Young Communist League Truth), June 3rd., 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 299).

"We cannot ignore the enormous technical and organisational experience underlying the advertising business in the USA. We must without hesitation take advantage of the best".

(V. Terestchenko: "Psychology and Advertising", in: "Literaturnaya gazeta" (Literary Gazette), February 8th., 1967, in: T.V. Greer: "Marketing in the Soviet Union"; New York; 1973; p. 98).

"Who does not know how felicitous advertising enlivens a city's exterior. And, indeed, it may be the 'zest' of an architectural ensemble".

A. Vyatkin: "Discussing Problems of Urban Development: Beauty and the Cost Estimate", in: "Izvestia" (News). January 19th., 1968; in: T.V. Greer: *ibid.*; p. 105).

"Under the new system of planning and economic incentive,.. well-placed advertising also promotes the success of the enterprise... Posters, signs and showcases, as we know, make a city and its streets attractive".

(V. Rusakova & G. Sudets: "Problems and Judgements: Let's Remember Advertising", in: "Pravda" (Truth), February 19th., in: T.W. Greer: *ibid.*; p. 99, 105).

"Good advertising not only creates favourable conditions for a product or service, but also moulds rational needs on the part of the consumer".

(Y. Kanevsky: "The Effect of Advertising", in: "Pravda" (Truth), April 1st., 1972, in: T.V. Greer: *ibid.*; p. 100).

“As on television, advertising on Soviet radio is presented only in ‘prime time’...An average station includes 15 to 30 minutes of advertising, presented in a few blocks at the convenience of the station but always during the prime time, between 6 and 11 in the evening. A block of commercials varies from 5 to 15 minutes in length”.
(T.V. Greer: *ibid.*; p. 110, 113).

Under the “economic reform”, production enterprises are encouraged to pass on the speculative risks of the market to trading enterprises, by concluding **direct contracts** with the latter:

“These enterprises (i.e., production enterprises – WBB) now draw up their production plans themselves on the basis of orders for goods placed by trading establishments and direct contracts concluded with them”.

(V. Sokolov. M. Nazarov & N. Kozlov: *ibid.*; p. 251).

“Direct contracts between manufacturing enterprises and consuming enterprises should be developed more broadly”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic incentives in Industrial Production”, in: “Izvestia” (News). September 28th., 1965, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 37).

“The role played by economic contracts will be raised. Permanent direct ties between enterprises, i.e., between the manufacturer and the consumer, will be ever more broadly developed”.

(L. Gatovsky: *ibid.*; p. 77).

“Contractual relations... should encompass 100% of the enterprises and 100% of the output...”

Long-term and stable relations between supplier enterprises and consumers... are a primary condition for the planned distribution of means of

production through wholesale trade”.

(N.Y. Drogichinsky: “The Economic Reform in Action”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 215, 216).

“We plan to complete the switch of associations and enterprises engaged in mass and large- volume production to direct and long-term ties, basing their relations on long-term economic contracts”.

(A.N. Kosygin: “Guidelines for the Development of the National Economy of the USSR for 1976-1980”, 25th. Congress CPSU, Moscow; 1976; p. 40-1).

The Soviet **law on contract** is now basically similar to that in orthodox capitalist countries in that an enterprise which commits a breach of such a contract (e.g., by failure to deliver commodities of the agreed quality, or by the agreed date) is liable to pay **damages for breach of contract** to the enterprise aggrieved by the breach:

“Economic sanctions should be applied in cases of bad work, such as fines for delivery delays”.

(V. Trapeznikov: “For Flexible Economic Management of Enterprises”, in: “Pravda” (Truth), August 17th., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 197).

“The failure to meet delivery terms should involve substantial fines”.

(E.G. Liberman: “Once Again on the Plan, Profits and Bonuses”, in: “Pravda” (Truth), September 20th., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 215).

“It is proposed to increase the material responsibility of the enterprise or organisation in cases of non-fulfilment of contract obligations for deliveries of goods so that, as a rule, the guilty party will make good any losses incurred”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Eco-

conomic Incentives in Industrial Production”, in: “Izvestia” (News), September 28th., 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 25).

“The development of self-sufficiency in industry has also been expressed in increasing the size of fines and in obligating the guilty enterprises to fully compensate for the caused damage with their own cost-accounting resources. The same procedure has been introduced for losses which arise owing to the fault of the transport organisations”. (P.G. Bunich: “Methods of Planning and Stimulation”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 53).

One method by which the state can influence the direction of development of the economy through “economic levers” is, of course, by **participation in the market**. Such participation is, however, **limited**:

“A majority of the industrial enterprises do not sell their goods to the state, but to other industrial enterprises or trading organisations. This represents the major part of the internal market”.

(B. Sukharevsky: “The Enterprise and Material Stimulation”, in: “Ekonomicheskaya gazeta” (Economic Gazette), No. 49, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 212).

Nevertheless, the state has a monopoly in the market for **armaments**, and participates on a considerable scale in the market for the **construction industry** (the commissioning of public buildings, schools, hospitals, theatres, etc.).

4: Payment for Production Assets

As has been shown, under the system of cost accountability the **rate of profit** is presented as “the supreme criterion of the efficiency of an enterprise”, and functions in practice as the regulator of social production.

But the rate of profit is the amount of profit made by an enterprise as **a percentage of the total cost of production assets** (land, buildings, machinery, labour power etc.) used by the enterprise in the creation of that profit. Land, buildings and machinery (less depreciation) constitute **fixed production assets**, while materials, labour power and depreciation constitute **circulating production assets** and are “used up” in each cycle of production.

In orthodox capitalist society, production assets (or the money used to obtain them) constitute **capital** – fixed and circulating respectively. In Marxist-Leninist terminology, production assets are termed capital only when they are utilised in association with **the exploitation of the working class**:

“Means of production... become capital only under circumstances in which they serve at the same time as means of exploitation and subjection of the labourer”

(K. Marx: “Capital”, Volume 1; London; 1974; p. 717-8).

And since contemporary Soviet propagandists maintain that workers in the Soviet Union are not exploited, most prefer to use the term “production assets” in preference to the term “capital” and to **deny** that production assets in the Soviet Union constitute capital:

“Payment for assets... radically differs from interest on capital”.

(B. Rakitsky: “Bourgeois Interpretation of the Soviet Economic Reform”, in: “Voprosy ekonomiki” (Problems of Economics), No. 10, 1965, in: “The Soviet Economic Reform; Main Features and Aims”; Moscow; 1967; p. 134).

However, the more candid contemporary Soviet economists, especially when writing in journals with a specialised readership, make no bones about referring to production assets in the Soviet

Union as **capital**:

“The objective in profitability is defined in the form of the relationship of profits to the annual average planned value of productive fixed capital and normative circulating capital...

One of the important elements of the new system.. is the introduction of payment for capital”.

(R. Krylov, L. Rotshtein & D. Tsarev: “On the Procedure and Conditions for Changing to the New System”, in: “Planovoe khoziaistvo” (Planned Economy), No. 4, 1966, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 259, 272).

Clearly, the rate of profit made by an enterprise could have no reality if production assets of varying amounts continued to be allocated to enterprises by the state without cost, as had been the practice under the socialist system which formerly existed in the Soviet Union. In order that the rate of profit might be made a reality, therefore, the demand was put forward in the propaganda campaign which preceded the “economic reform” **that production assets (including natural resources such as land, minerals and water) should be paid for in full by the enterprise making use of them:**

“The time has come to eliminate the situation in which fixed assets allocated by society to any given production entity are given without charge”.

(V.S. Nemchinov: “The Plan Target and Material Incentive”, in: “Pravda” (Truth), September 21st., 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 110).

“Normative charges on fixed and circulating assets represent one of the forms of expressing the minimum demands of society in relation to the expected economic results from the use of production resources. **Charges on fixed assets** should be regarded as **an objective method of planning the profitability of an enterprise....**

The introduction of compulsory normative

charges on fixed assets will make it possible to **put an end to the latter's gratuitous character**".

(V.S. Nemchinov: Socialist Economic Management and Production Planning", in: "Kommunist" (Communist), No. 5, 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 186).

"The use of profits as a criterion of an enterprise's efficiency presupposes the correct solution of the problems of payment for production assets..."

The introduction of the principle that production assets must be paid for would serve as a powerful stimulus for the better utilisation of these assets".

(L. Leontiev: "The Plan and Methods of Economic Management", in: "Pravda" (Truth), September 7th., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 210).

"Payment for productive assets will become a powerful economic lever in stimulating their intensive utilisation".

(V. Garbuzov: "Finances and Economic Stimuli", in: "Ekonomicheskaya gazeta" (Economic Gazette), No. 41, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 52).

In September 1965 the **Central Committee of the Communist Party of the Soviet Union** endorsed the **principle** that enterprises should pay for the production assets which they utilised, and only the amount and method of payment remained to be decided:

"It is necessary to introduce deductions in favour of the state budget from the profits of enterprises in proportion to the value of the fixed and circulating assets allocated to them, with these deductions being considered as payment for production assets..."

These payments are not proposed as additional contributions to the state budget over and above

the payments which the enterprises are making now; the idea is to divert a considerable portion of the payments to the state budget through a new channel. In the future, payments for assets will become the most important part of the state's income, and the importance of other payments, including the turnover tax, will be correspondingly reduced”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives in Industrial Production, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 24).

“The proclamation of the principles of the economic reform by the September (1965) Plenum of the Central Committee of the CPSU put an end to the discussion of the expediency of introducing charges for productive capital... The question is no longer whether the actual principle of charges corresponds to the principles of socialist management, but rather pertains to... the size of the charges and the rules for collecting them”.

(E.G. Effimova: “On the Economic Content of Capital Charges”, in: “Izvestia sibirskogo otdeleniya Akademii Nauk SSSR: Seriya obshchestvennykh Nauk” (Bulletin of the Siberian Section of the Academy of Sciences of the USSR: Social Science Series), No. 1, 1971, in: “Problems of Economics”, Volume 14, No. 11; March 1972; p. 49).

In the case of natural productive assets, such as land and water, utilised by enterprises, differential payments were introduced – according to fertility, size, location, etc. in the case of agricultural land; according to size, location, etc. in the case of building land; according to size, location, the quality and location of deposits, etc. in the case of mining land; according to quality and quantity available in the case of water:

“In the extractive industry, the productivity of labour, production costs and profitability de-

pend, first, on the quality of natural resources.... and, second, on the location of the natural resources relative to the earth's surface, transportation lines and markets...

In order to remove the effect of natural and geographic factors upon profits in the extractive industry, it is necessary to introduce monetary payment for the development of natural wealth. The rates of payment should be differentiated depending on the quality and location of the natural resources....

In this case, the enterprise's profit will reflect only the level of economic efficiency of its personnel and will not depend on the given quality and location of the natural resource".

(V. Shkatov: "What is Useful for the Country is Profitable for Everyone", in: "Pravda" (Truth), September 1st., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 203, 204).

"The level of profitability can be influenced by... location and favourable natural conditions... But the economic reform envisages that such unequal conditions of operation.. can be smoothed over by differences in the level of payments for the use of assets".

(E.G. Liberman: "Plan, Direct Ties and Profitability", in: "Pravda" (Truth), November 21st., 1965, in: "The Soviet Economic Reform: Main Features and Aims"; Moscow; 1967; p. 56).

"Unequal conditions of work... can be evened out by differences in the level of payment for the use of assets and in the rent payments".

(E.G. Liberman: "Profitability of Socialist Enterprises", in: "Ekonomicheskaya gazeta" (Economic Gazette), No. 51, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 230).

"Differences in the size of profit obtained by dif-

ferent enterprises are often caused by the fact that some of them have more favourable natural conditions than others. Thus some enterprises extract coal by the open-cast method, while others have to resort to underground mining.. There are oil-wells with big and low yields. Individual enterprises extract raw materials with a high useful content, while others obtain materials of inferior quality sold at a relatively low price.

Special rent payments made by enterprises to the state budget have been introduced to stimulate the full use of natural resources and to even out the income of collectives operating in different natural conditions”.

(P.G. Bunich: “Methods of Planning and Stimulation”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 46).

“The introduction of pay for water, differentiated depending on its quality and scarcity in some or other regions, will be of great importance”.

(A.G. Aganbegyan: “Territorial Planning and the Economic Reform”, in: *ibid.*; p. 95).

With regard to the method of payment for production assets, the procedure adopted at first was the payment of **an annual sum** by the enterprise to the state budget:

“The norms for payments for fixed assets and circulating assets will be established for a prolonged period of time – several years – so that a normally functioning enterprise will have profits left, after making its payments, for setting up incentive funds and for covering its planned expenses”.

(A.N. Kosygin: *ibid.*, p. 24).

In 1965 the annual payments averaged **15% of the value of the production assets** being utilised by the enterprise. (L. Vaag: “According to a Single Rate of Profit”, in: “*Ekonomicheskaya gazeta*”

(Economic Gazette), No. 45, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 144).

In the case of **new** plant, the enterprise was permitted to begin payment of these annual sums **after an initial period of adjustment**:

“New machines, newly installed equipment, and shops and enterprises just put into operation cannot always produce their maximum effect immediately, and enterprises might experience certain financial difficulties in this connection. Therefore, it is proposed that payments for assets be made only after the end of the planned period envisaged for the full utilisation of capacities”.

(A.N. Kosygin: *ibid.*; p. 24).

Later an alternative method of payment for production assets was introduced; **the payment of a lump sum once and for all** equal to the value of the assets concerned. This lump sum might be paid out of the enterprise's **own funds** or, if these were insufficient, financed by means of a **bank credit** granted to the enterprise; this credit would be repayable, with interest, over the period which the assets concerned were regarded as likely to operate efficiently (the **“depreciation period”**):

“If investments are made with a received credit, enterprises, in addition to the interest rate, have to repay the loan... The period of repaying the loan is equal to the period of depreciation of the built project”.

(P.G. Bunich: *ibid.*; p. 45).

Of course, if the equipment concerned can be made to function after the end of the depreciation period, it can continue to be utilised by the enterprise for the creation of profit without any further payments in connection with it:

“Can there be a situation when a credit is repaid, while the project created with it continues to function? Yes, if the conditions of operation of the given project have been exceedingly rational and it continues to function beyond the limit set by the

depreciation period”.
(P.G. Bunich: *ibid.*; p. 45).

It follows that, in pursuit of the maximum rate of profit, **enterprises have an interest in paying a lump sum for their production assets rather than annual sums, as well as in making old (and possibly obsolete) equipment operate as long as possible.**

In 1971 industrial enterprises contributed, on the average, **17%** of their profits to the state in the form of payments for fixed and circulating assets. (A.D. Kursky: “Economic Reform”, in: “The Soviet Planned Economy”; Moscow, 1974; p. 303-4).

The question arises: since the introduction of payment by the enterprise for production assets, **who owns these assets – the state or the enterprise?**

In the case of **land and mineral resources, the state clearly retains ownership,** so that the enterprise functions as a **tenant** paying **ground rent** (both absolute and differential) to the state as **landlord**:

“Pay for natural resources in effect represents differential rent”.
(A.G. Aganbegyan: *ibid.*; p. 91-2).

The question of the ownership of production assets other than natural resources will be discussed in Section 6: “Ownership of the Means of Production”.

5: Credit and Interest

As in the case of production assets in the form of means of production, the rate of profit made by an enterprise could have no reality if **finance** of varying amounts continued to be allocated to enterprises by the state without cost, as had been the practice under the socialist system which formerly existed in the Soviet Union. In order that the rate of profit might be made a reality, therefore, the demand was put forward in the propaganda campaign which preceded the “economic reform” that finance should be made available to enterprises almost exclusively in the form of **bank credit, repayable by the enterprise with interest:**

“Gratuitous financing – a form of financing that is scarcely connected with cost accounting – will be increasingly replaced by credit, i.e., by a form of loan to the enterprise that must be returned”.

(L. Gatovsky: “Unity of Plan and Cost Accounting”, in: “Kommunist” (Communist), No. 15, 1965, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 82).

This principle was adopted in the “economic reform” instituted from September 1965:

“The use of credits must be expanded”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives in Industrial Production”, in: “Izvestia” (News), September 28th., 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 21).

Particular emphasis was placed in the “economic reform” on ending the free allocation of **circulating funds** to enterprises, and on replacing this by the allocation of bank credit:

“It is proposed to abolish the practice of providing free supplements to the circulating assets of enterprises from the state budget and, instead, where necessary, to grant them credits for this purpose. Such a system will encourage enterprises to use the

assets allocated to them more thriftily”.

(A.N. Kosygin: *ibid.*; p. 23).

Already by 1965 40% of the circulating assets of enterprises came from bank credit:

“Credit resources must also be more extensively used for providing enterprises with circulating assets. Already approximately 40% of their total volume is formed from bank credit. In future this share will doubtless grow”.

(V. Garbuzov: “Finances and Economic Stimuli”, in: “*Ekonomicheskaya gazeta*” (Economic Gazette), No. 41, 1965, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 55) and by 1976 this proportion had grown to 50%:

“At present, every second ruble of circulating assets in industry comes from credit, with the share of credit in agriculture, trade and other branches being even higher”.

(A.N. Kosygin: “Guidelines for the Development of the National Economy of the USSR for 1986-1980”, 25th. Congress CPSU; Moscow; 1976; p. 42-3).

But, as has been noted in the previous section on “Payment for Production Assets”, where enterprises resolved to pay for their fixed production assets in a lump sum and were unable to do so from their own funds, the “economic reform” provided that bank credit was to be used here also:

“Financial grants made by the state to enterprises for capital investment must be restricted and the use of credits must be expanded...”

The financing of capital investment is currently handled by free grants from the state budget...

We need... to switch from free allocation of means for capital construction to long-term crediting of the enterprises. It is suggested that the credit system will, first of all, be introduced for capital

investments in operating enterprises. As for new constructions, it appears that it might be expedient to employ long-term crediting for those construction sites where expenditures can be recouped in a comparatively short period of time”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives in Industrial Production”, in: “Izvestia” (News), September 28th., 1965, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 21, 23).

“According to preliminary calculations, more than half of the present total volume of capital investments – 20 to 25 thousand million rubles – can be effectuated through credit”.

(V. Garbuzov: *ibid*; p. 54).

“Up to now capital investments in industry have in most cases been financed from non-repayable budget funds..

Credit is a much more advantageous way of financing than non-repayable budget funds”.

(V. Vorobyev: “Credit and Industrial Development”, in: “*Ekonomicheskaya gazeta*” (Economic Gazette), No. 46, 1965, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 90).

“Not so long ago, in practice as well as in the economics literature, the movement of circulating assets was considered as the only sphere of credit relations in the state sector of the economy...

In the present state of development... the application of the credit form, the repayment of borrowed means at the expense of amortisation and profits, and the payment of interest for them, secure the necessary material responsibility and interest of the enterprises in the effectiveness of capital investments”.

(V. Batyrev: “The Economic Reform and the In-

creasing Role of Credit”, in: “Kommunist” (Communist), No. 2, 1966, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 245, 246).

“Long-term credit is playing a more active part.. in financing fixed assets in industry.. The credit period for fixed assets has been raised to six years and it is granted much more widely, so that it is now given not only for measures connected with the application of new technology and the mechanisation of production but also to a large extent for the reconstruction and expansion of production at existing enterprises.. Moreover, bank credits may also be used for investment in the building of new enterprises provided they are recouped in not more than five years after commissioning”.

(K.N. Plotnikov: “Soviet Finance and Credit”, in: “The Soviet Planned Economy”; Moscow; 1974; p. 23).

“Credit relations must be more broadly developed in the sphere of construction, in particular through the extension of long-term credits to customers”.

(A.N. Kosygin: “Guidelines for the Development of the National Economy of the USSR for 1976-1980”, 25th. Congress CPSU; Moscow; 1976; p. 43).

The increase in the role of bank credit in the Soviet economy brought about by the “economic reform” naturally also enhanced the role of the **rate of interest**:

“As the role of the credit system rises the significance of the interest paid on loans will also grow”.

(V. Garbuzov: ibid.; p. 55).

In the propaganda campaign preceding and associated with the “economic reform”, strong demands were put forward that the rate of interest should no longer be purely nominal, but should be set

“sufficiently high” to enable it to function effectively as **an economic lever** in the hands of the state:

“The rate of interest on the credit should be set sufficiently high”.

(V. Belkin & I. Bergman: “The Independence of the Enterprise and Economic Stimuli”, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 230).

“Payment of interest for use of cash loans is an important aspect of credit relations....

The bank exacts 2% per year for most loans. This is a very low rate, and therefore the enterprise cannot become sufficiently interested in employing borrowed means thriftily or in using their own accumulations instead of borrowing...

The experience of a number of socialist countries shows the effectiveness... of a higher interest rate”.

(V. Batyrev: *ibid.*; p. 248, 249).

In 1967, therefore, **the standard rate of interest** was raised to **4-4.25%** for short-term loans of up to 5 years, and **4.5-6%** for long-term loans of 5-15 years. (A.H. Hermann: “East-West Finance”, in: “The Banker”, Volume 121, No. 546; August 1971; p. 878).

Soviet economists were enthusiastic about this measure:

“Interest for credit, as an economic method, is set at a level which ensures the use of the planned credit resources with optimal efficiency”.

(P.G. Bunich: “Methods of Planning and Stimulation”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 223)

“Bank credit is becoming a powerful economic lever”.

(K.N. Plotnikov: “Soviet Finance and Credit”, in: “The Soviet Planned Economy”; Moscow; 1974; p. 223).

Although some demanded that the rate of interest be increased **still further**:

“An economically (and mathematically) substantiated increase in interest rates will have substantial influence on the better use of such important instruments as credit, capital charges and profit for the management of the economy”.

(I. Shor: “Some Problems in Building Models of Interest”, in: “Dengi i kredit” (Money and Credit), No. 3, 1972, in: “Problems of Economics”, Volume 15, No. 7; November 1972; p. 72).

The profit of an enterprise is calculated after all interest charges have been met;

“Interest on all types of loans is paid from the profit of enterprises prior to establishing its calculated magnitude”.

(P.G. Bunich: *ibid.*; p. 52).

So that, in the case of an enterprise which is in the process of repaying a bank credit granted for the acquisition of production assets in a lump sum, **the rate of interest becomes the lower limit of profitability** for the enterprise:

“The level of interest becomes the lower limit of permissible profitability, and only capital investments that exceed this limit will be considered profitable”.

(P. Bunich: “Economic Stimuli to Increase the Effectiveness of Capital Investments and the Output-to-Capital Ratio”, in: “Voprosy ekonomiki” (Problems of Economics), No. 12, 1965, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 184).

As in an orthodox capitalist country, actual rates of interest are **differentiated** according to the financial position of the enterprise applying for the credit – enterprise which are functioning “efficiently” (i.e., profitably) receiving more favourable terms than those which are not – and **varied** in accordance with the general economic situation:

“The experience of a number of socialist countries shows the effectiveness.. of a rate (of interest – WBB) that differs in accordance with the type of

loan, the work and financial condition of the borrowing enterprise and also, if possible, the general economic situation....

The differentiation of interest rates for loans is connected with the introduction of different credit-
ing procedures for enterprises that are operating efficiently and enterprises that are functioning badly. According to this approach... the bank should grant favourable terms to the former and take restrictive measures in relation to the latter”

(V. Batyrev: *ibid.*; p. 249-59).

“Efficient enterprises.. enjoy certain advantages, while credit is sometimes restricted to poorly-run enterprises as a kind of sanction against them”.

(B. Zabelin: “Industrial Management: Soviet Experience”; Moscow; n.d.; p. 84).

“Poorly functioning enterprises should be placed under still tighter loan restrictions to that they will eliminate shortcomings in their work more promptly”.

(M. Pessel: “Credit and its Development under Current Conditions”, in: “Nauchnye doklady vysshei shkoly: Ekonomicheskie nauki” (Scientific Report of Higher Schools: Economic Science). No. 9, 1972, in: “Problems of Economics”, Volume 15, No. 12; April 1973; p. 90).

“An important factor in increasing the role of bank credit in developing the Soviet economy is the differential granting of credit to well-run or badly-run enterprises and organisations... Well-run enterprises receive credit concessions”.

(K.N. Plotnikov: *ibid.*; p. 222).

The policy of the **Construction Bank** (Stroibank) is described as one of imposing

“...restrictions on granting credit to existing enterprises that are either operating at a planned

loss or are relatively unprofitable”.

(V.N. Kulikov: “Some Problems of Long-term Crediting of Centralised Capital investments”, in: “Finansy SSSR” (USSR Finances), No. 5, 1974, in: “Problems of Economics”, Volume 17, No. 10; February 1975; p. 61).

In particular, enterprises which do not repay bank loans on time are subject to a **“punitive” rate of interest** and to other **penalties**:

“If an enterprise does not repay the amount of credit planned for a given period, the unpaid sum is shifted to a later period with a higher interest rate”.

(P. Bunich: *ibid.*; p. 184).

“If an enterprise does not repay a loan on time, it should not only be subjected to the payment of a higher interest rate; other measures would also be taken.. In some cases it may be necessary to confine the crediting within definite limits, in others – to establish a stricter procedure for credit assistance...”

A particular high (‘punitive’) rate of interest should be fixed for overdue loans”.

(V. Batyrev: *ibid.*; p. 243, 249).

As in an orthodox capitalist country, bank credit is normally advanced to an enterprise only **against security**:

“Credit must be secured. Enterprises and economic organisations obtain credit on the security of stocks of goods and materials or their production expenditures (raw and other materials, finished goods, etc.). Only in special cases.. are loans issued by the State Bank without such security”.

(K.N. Plotnikov: *ibid.*; p. 221)

All credit in contemporary Soviet society is advanced by **banks** which are **state institutions**. The **USSR State Bank** (**Gosbank SSSR**)specialises in the granting of short-term loans, while the **Construction Bank** (**Stroibank**) specialises in long-term loans for

construction purposes.

Although state institutions, the economic policy of the Soviet banks does not differ in principle from that of banks in orthodox capitalist countries – as the Chairman of the USSR State Bank makes clear:

“When crediting enterprises and organisations it is essential to have them improve capital efficiency, cut production costs, raise the profitability of production and eliminate operations at a loss”.

(M. Sveshnikov: “USSR State Bank after 50 Years”, in: “The Banker”, Volume 121, No. 550; December 1971; p. 1,479).

As in most orthodox capitalist countries, the Soviet banks are left relatively free to regulate the amount and conditions of credit they extend:

“It is not expedient, in the new conditions, to attempt strict regulation of credit assistance given by the bank...”

It is precisely along these lines that we can overcome those tendencies towards bureaucratization and excessive regulation of credit which hinder the further development of credit and impede a flexible manoeuvring with resources”.

(V. Batyrev: *ibid.*; p. 243, 244).

The exception to this principle – as in orthodox capitalist countries – lies in the fact that the standard rate of interest (on which the actual rates of interests charged depend) **is fixed at a high government level**, in order that this may be utilised – as in orthodox capitalist countries – as an “economic lever” to influence the economy:

“The establishment of an interest rate on capital, and primarily on the circulating assets granted to the enterprises, will prove to be the best, and probably the only, form of economic influence”.

(V. Trapeznikov: “For Flexible Economic Management of Enterprises”, in: “Pravda” (Truth), August 17th., 1964, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 1; p. 199).

“Credit is used as an instrument for influencing the economy”

(M. Pessel: *ibid.*; p. 89).

Contemporary Soviet economists claim that interest in the Soviet economy is “**qualitatively different**” from interest in an orthodox capitalist economy:

“Under socialism, interest differs fundamentally in terms of content and economic role from interest paid for loans in the capitalist economy”.

(V. Batyrev: *ibid.*; p. 248).

As has been shown, **the facts do not bear out this claim.**

6: Ownership of the Means of Production

Contemporary Soviet propagandists claimed that since the “economic reform” the principal means of production remain in public ownership” – either in that of producers’ cooperatives or, for the most part, in that of the state:

“Public ownership of the means of production does unite the labour of individual producers on a scale embracing the entire national economy. The overwhelming proportion of the means of production is concentrated in the hands of one owner – the state”.

(S. Khavina: “In the Crooked Mirror of Bourgeois Theories”, in: “Ekonomicheskaya gazeta” (Economic gazette), No. 44, 1965, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 139).

They claim that even when means of production are **held and used** by industrial enterprises, **their ownership remains vested in the state**:

“The state is the owner of all production assets in state enterprises. The collectives (i.e., the personnel of enterprises – WBB) use these assets, but they do not own them”.

(P. Bunich: “Economic Stimuli to Increase the Effectiveness of Capital Investments and the Output-to-Capital Ratio”, in: “Voprosy ekonomiki” (Problems of Economics), No. 12, 1965, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 195).

This **was** undoubtedly the position **under the socialist system** which formerly existed in the Soviet Union:

“A commodity is a product which may be sold to any purchaser, and when its owner sells it he loses ownership of it and the purchaser becomes the owner of the commodity, which he may resell, pledge or allow to rot. Do means of production

come within this category? They obviously do not. In the first place, means of production are not 'sold' to any purchaser;.. they are only allocated by the state to its enterprises. In the second place, when transferring the means of production to any enterprise, the owner – the state – does not at all lose the ownership of them; on the contrary, it retains it fully. In the third place, directors of enterprises who receive means of production from the Soviet state, far from becoming their owners, are deemed to be agents of the state in the utilisation of the means of production in accordance with the plans established by the state.

It will be seen, then, that under our system means of production can certainly not be classed in the category of commodities”.

(J. V. Stalin: “Economic Problems of Socialism in the USSR”; Moscow; 1952; p. 58).

Since the “economic reform”, however, means of production in the Soviet Union are classed as commodities:

“Under socialism the market is a sphere of planned commodity circulation, a sphere for the marketing of products – means of production and consumer goods manufactured by state and cooperative enterprises”.

(L. Gatovsky: “Unity of Plan and Cost Accounting”, in: “Kommunist” (Communist), No. 15, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 88).

Even where an enterprise pays for the use of its production assets (other than natural resources) by annual sums, it is regarded legally as the owner of these assets.

The Statute on the Socialist State Production Enterprise, adopted by the USSR Council of Ministers on October 4th., 1965, gives an enterprise “rights of possession” over the production assets which it holds:

“The enterprise will exercise the rights of possession... of the property under its operational con-

trol”.

(Statute on the Socialist State Production Enterprise, in: M.E. Sharpe (Ed.); op. cit., Volume 2; p. 291).

The acquisition of production assets (other than natural resources) by an enterprise is therefore described as “**purchase**”:

“Credits for the purchase of heavy technological and power equipment of Soviet manufacture... are issued”.

(S, Ginzburg: “New Developments in Construction Financing”, in: “Ekonomicheskaya gazeta” (Economic Gazette), No. 43, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 65).

“The single approach to managing the economy is displayed... in granting enterprises equal rights... to buy means of production...”

Society furnishes enterprises with money for the purchase of the means of production... Only the purchase of the means of production by enterprises with the income received as a result of improving their work.. can be regarded as a form of spending ‘their own resources’”

(P.G. Bunich: “Methods of Planning and Stimulation”, in: Soviet Economic Reform: Progress and Problems”, Moscow; 1972; p. 36, 44).

That the terms “rights of possession” and “purchase” are not here being used in-exactly is shown by the fact that the Statute gives the enterprise **the right to lease or sell** the means of production it “possesses” – a right which involves **clear proof of effective ownership by the enterprise**:

“The enterprise will exercise the rights of... disposal of the property under its operational control...”

The enterprise may lease to other enterprises and organisations, at rents fixed for the given locality, buildings and structures, as well as production, warehouses and other facilities assigned to

it...

Surplus equipment... may be sold by the enterprise to other enterprises and organisations... Sums obtained from the sale of material values representing fixed assets will remain at the disposal of the enterprise”.

(Statute on the Socialist State Production Enterprise, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 291, 293, 295).

The **sale of means of production by enterprises** is frequently referred to by contemporary Soviet economists and politicians:

“The enterprises will enjoy broader powers in the use of... the money from the sale of surplus equipment and other material values”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives and Industrial Production” in: “Izvestia” (News), September 28th., 1965, in: M.E. Sharpe (Ed.) op. cit., Volume 2; p. 38).

“The enterprise will enjoy greater economic rights.. in disposing of property, productive assets”.

(L. Gatovsky: *ibid.*; p. 74).

“The system of stimulating enterprises through their level of profitability in relation to assets.. will also interest them in the quickest possible sale of superfluous machines, the receipts from the sale of which will go into the development fund and will enable them to buy equipment needed to create the conditions for an increase in profits...”

The sale of superfluous fixed assets will be done by enterprises on the basis of their residual values.

The enterprises have been given relatively extensive rights with respect to the sale of superfluous assets, the receipts from which go into their fund for development”.

(P. Bunich: "Economic Stimuli to Increase the Effectiveness of Capital Investments and the Output-to-Capital Ratio", in: "Voprosy ekonomiki" (Problems of Economics), No. 12, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 194, 199, 202).

"The socialist market for the means of production is the sphere... where the economic relations operate directly as the relations of supply and demand, and are realised in the act of buying and selling the means of production".

(V. Budaragin: "The Price Mechanism and Circulation of the Means of Production", in: "Nauchnye doklady vysshei shkoly: Ekonomicheskie nauki" (Scientific Reports of Higher Schools; Economic Science), No. 11, 1971, in: "Problems of Economics", Volume 15, No. 3; July 1972; p. 74).

Already in September 1965 Prime Minister **Aleksei Kosygin** was bestowing special praise on five transport organisations for having:

"...sold superfluous trucks and equipment".
(A.N. Kosygin: ibid.; p. 28).

In fact, following the "economic reform", the **purchase and sale of means of production** was gradually transferred to **whole-sale trading organisations**:

"A new aspect of the activity of marketing and supply agencies will be the gradual transfer to them of wholesale.. trade in the articles and means of production".

(V. Dymshits: "Production: Plan: Supply, in: "Pravda" (Truth), December 15th., 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2 p. 221-2).

"Long-term and stable relations between supplier enterprises and consumers.. are a primary condition for the planned distribution of means of production through wholesale trade".

(N.Y. Drogichinsky: "The Economic Reform in

Action”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 216).

Already by 1971 the market in means of production constituted some **two-thirds** of the country’s total trade turnover (V. Budagarin: *ibid.*; p. 74), and by 1974 **70%** of the market in means of production consisted of

“A large-lot wholesale trade... conducted directly between supplier and consumer”.

(N.Y. Drogichinsky: “On Wholesale Trade in the Means of Production”, in: “Voprosy ekonomiki” (Problems of Economics), No. 4, 1974, in: “Problems of Economics”, Volume 17, No. 6; October 1974; p. 96, 98).

Furthermore, the transfer of ownership of means of production from the state to an enterprise by the act of purchase can **in no way** be regarded as transfer to and “**agency**” of the central state. For, although the enterprise is officially called a:

“socialist state production enterprise”,
(Statute on the Socialist State Production Enterprise, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 289).

It is described as an:

“independent enterprise”
(*ibid.*; p. 291).

and

“The state is not responsible for the obligations of the enterprise, and the enterprise is not responsible for the obligations of the state”.
(*ibid.*; p. 291).

Contemporary Soviet propagandists, in fact, are at pains to stress that allegations that the enterprises are not really independent are nothing but “**groundless bourgeois slander**”:

“Another bourgeois concept... denies the economic independence of socialist enterprises... It is not difficult to prove the utter groundlessness of this ar-

gument”.
(S. Khavina: *ibid.*; p. 139).

Furthermore, **the property rights of the enterprise are vested in its director:**

“The enterprise is headed by a director...The director of the enterprise may, without power of attorney, act in its name...dispose of the property and funds of the enterprise”. (Statute on the Socialist State Production Enterprise, in M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 310-1).

7: The New Soviet Capitalist

The **director** of a contemporary Soviet industrial enterprise is, thus, **the effective owner of the means of production** (other than natural resources) **of the enterprise** and has full legal responsibility for their operation:

“The rights of the enterprise that relate to its production and economic activity are exercised by its director”.

(Statute on the Socialist State Production Enterprise, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 299).

“The industrial managers bear full responsibility for the production sectors entrusted to them by the state. This responsibility, the role of one-man management in production, is becoming especially important now”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning, and Enhancing Economic Incentives in Industrial Production”, in: *ibid.*; p. 42).

And since this responsibility is primarily to ensure that the enterprise under his control makes the maximum possible rate of

profit, he, in Marx's words,

“becomes a capitalist... The expansion of value.. becomes his subjective aim.. He functions as a capitalist, that is, as capital personified and endowed with a consciousness and a will”.

(K. Marx: “Capital”, Volume 1; London; 1974; p. 151).

As a writer in the (US) “**Harvard Business Review**” expresses it:

“Many Soviet managers would fit into any corporate hierarchy in the United States and do exceptionally well”.

(M.I. Goldman: “More Heat in the Soviet Hot-house”, in: “Harvard Business Review”, Volume 49, No. 4; July/August 1971; p. 15).

Significantly, in the propaganda campaign preceding and associated with the “economic reform”, the demand was put forward for the establishment in the Soviet Union of a network of “**business schools**” for the training of executives, modelled on that attached to **Harvard University in the USA**:

“Harvard University (USA) has a school for business executives, training personnel for 300 concerns. There is no special training for managerial personnel in the USSR... It is high time to tackle this problem seriously”.

(K. Plotnikov: “E.G. Liberman: Right and Wrong”, in: “Voprosy ekonomiki” (Problems of Economics), No. 11, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 165).

In February 1971 the **Institute of Management of the National Economy**, attached to the State Committee for Science and Technology, was opened in Moscow as the first “business school”. (Z. Katz: “The Nachalnik (Executive) Class in the USSR”; Cambridge (USA); 1973; p. 25).

The writer in the “**Harvard Business Review**” already quoted, commented:

“The Russians have again turned to the non-Communist world; they are creating a network of business schools”.

(M.I. Goldman: *ibid.*; p. 15).

The director of a **Soviet** industrial enterprise differs from his counterpart in **private** industry in **Britain** (the managing director of an industrial company) in that:

1) he is appointed to, and may be dismissed from, his position as director by **the state**, instead of by the shareholders of the company concerned:

“The director of the enterprise is appointed and relieved of his post by the superior body (i.e., the appropriate Ministry – WBB)”.

(Statute on the Socialist State Production Enterprise, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 310).

2) in the absence of shareholdings, his right to draw profits from the enterprise continues **only so long as** he is actively attached to that enterprise.

On the other hand, the director of a Soviet enterprise differs from his counterpart in **nationalised** industry in **Britain** in that he draws, in addition to a substantial salary, **profit** from the enterprise.

8: Freedom to Hire and Fire

In introducing the “economic reform” in September 1965, Prime Minister Aleksei Kosygin drew attention to a slowdown in the rate of growth of the productivity of labour, which had occurred in recent years:

“It should be said that in recent years the volume of the national income and industrial output per ruble of fixed assets has declined somewhat. The rates of growth of labour productivity in industry... have slowed down somewhat in recent years”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives in Industrial Production”, in: “Izvestia” (News), September 28th., 1965, in; M.E. Sharpe (Ed.): Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 7).

In fact, statistics of national income – defined by Soviet economists as

“...the value newly created in a given period, usually a year”.

(D.A. Allakhverdyan: “National Income and Income Distribution in the USSR”, in: “The Soviet Planned Economy”; Moscow; 1974; p. 76).

expressed as a percentage of the total value of production assets, showed a consistent decline in the years prior to 1965:

1959: 62.6%

1960: 61.6%

1961: 60.5%

1962: 58.2%

1963: 55.0%

1964: 54.7%

1965: 53.2%

(T.S. Khachaturov: “The Economic Reform and Efficiency of Investments”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 158).

Tigran Khachaturov, a specialist in investment efficiency, describing this ratio as

“...the main indicator of efficiency for the national economy”,

(T.S. Khachaturov: *ibid.*; p. 158)

commented:

“A decline of this indicator during the seven -year period (1959-65) speaks about the existence of unfavourable phenomena in the Soviet economy”.

(T.S. Khachaturov: *ibid.*; p. 158).

The significance of these “unfavourable phenomena” is more striking when the **rate of increase in the output per industrial worker** is compared with the **rate of increase in the amount of capital per industrial worker**:

	1950-55	1955-60	1960-65
Capital per worker (rate of increase):	50%	44%	43%
Capital per worker Output per worker (rate of increase):	49%	37%	20%
Difference:	-1%	-75	-17%

(T.S. Khachaturov: “Improving the Methods of Determining the Effectiveness of Capital Investments”, in: “Voprosy ekonomiki” (Problems of Economics), No. 3, 1973, in: “Problems of Economics”, Volume 16, No. 5; September 1973; p. 21).

These last figures reveal that the rate of increase in output per worker declined **much faster** than the rate of increase in capital per worker in the fifteen years prior to 1965. In other words, the Soviet workers, during this period, were being supplied with **more and more** means of production but were producing proportionately **less and less!**

It is clear that the mass of the Soviet workers had responded to the social changes introduced under the Khrushchev regime by an attitude of **passive resistance to increasing production**, by a **“go-slow”**. One is reminded of Marx’s remark on the attitude of workers

to production under a system where the means of production are seen as “another man’s property”:

“Since, in this mode of production, the workman finds the instruments of labour existing independently of him as another man’s property, economy in their use appears.. to be a distinct operation, one that does not concern him”.

(K. Marx: “Capital”, Volume 1; London; 1974; p. 308).

This situation contrasted markedly with that which had existed in the period when a socialist society existed in the Soviet Union, and it was a cardinal aim of the “economic reform” to **reverse** this trend of economic decline.

Under the socialist system which formerly existed in the Soviet Union, a worker could be dismissed only for **grave misconduct** (usually involving a criminal offence in connection with his work) and then only with the consent of the enterprise trade union committee:

“Soviet labour legislation... permits the dismissal of a worker by management only with the agreement of the factory and local trade union committee and on grounds stipulated by law”.

(Trudovoe pravo: Entsiklopedichesky slovar” (Labour Law: An Encyclopaedic Dictionary); Moscow; 1959, in: R. Conquest (Ed.): “Industrial Workers in the USSR”; London; 1967; p. 19).

An important aim of “economic reform”, therefore, was **to increase the productivity of labour**, not only by giving the workers more effective economic incentives to do so, but also by giving the managements of enterprises **relatively unhindered powers to dismiss workers**, partly as a disciplinary measure against workers not “pulling their weight”, partly as an essential element in a **rationalisation programme**.

In the propaganda campaign preceding and associated with the “economic reform”, the demand was accordingly put forward that the economic independence of the enterprise should embrace the right of management to **determine at all times the size of its labour force**. Since it was agreed that wage levels should continue to

be fixed by the state, this demand was sometimes put forwards in the form that the management of an enterprise should have the right to determine the size of the wage fund (i.e., the total sum paid out in wages):

“It would be advisable gradually to abolish control over the number of people to be employed and the wage fund”.

(V. Belkin & I. Berman: “The Independence of the Enterprise and Economic Stimuli”, in: “Izvestia” (News), December 4th., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1. p. 229).

Under the “economic reform” this right was given to the managements of enterprises – a right which was, in fact, **the relatively unhindered right to engage and dismiss workers:**

“The firms (transferred to the “reformed” system – WBB) determine.. the wage fund”.

(V. Sokolov, M. Nazarov & N. Kozlov: “The Firm and the Customer”, in: “Ekonomicheskaya gazeta” (Economic gazette), No. 1, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 251).

“The size of the wage fund will also be determined by the enterprise”.

(“Direct Contracts are Expanding”, in: “Ekonomicheskaya gazeta” (Economic gazette), No. 3, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 279).

“The economic independence of those enterprises (transferred to the “reformed” system – WBB) was expanded;... they were granted major rights as regards... savings in the wage fund”.

(A.N. Kosygin: *ibid.*; p. 28).

“From now on the enterprises will not be assigned the number of people they are to employ. The introduction of comprehensive cost accounting... will, naturally, reveal surplus labour at some of the

enterprises”.

(L. Gatovsky: “Unity of Plan and Cost Accounting”, in: “Kommunist” (Communist), No. 15, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 83).

“The director.. will hire and dismiss personnel”.

(Statute on the Socialist State Production Enterprise”, in: M.E. Sharpe (Ed.) op. cit., Volume 2; p. 311)

“Shop heads have the right to hire and fire”.

(S. Kamenitser: “The Experience of Industrial Management in the Soviet Union”; Moscow; 1975; p. 40).

9: The Primitive Accumulation of Capital

Under the socialist system which formerly existed in the Soviet Union, **the working class was the collective owner of the means of production of industry.**

As has been demonstrated in the previous sections, **the Soviet working class has now been expropriated of these means of production, which have become the effective property of a new class of Soviet capitalists in the form of directors of industrial enterprises.**

This process is essentially similar to that which Marx, describing the development of capitalist society out of feudal society, called the **primitive accumulation of capital:**

“The capitalist system presupposes the complete separation of the labourers from all property in the means by which they can realise their labour... The process, therefore, that clears the way for the capitalist system can be none other than the process which takes away from the labourer the possession of this means of production; a process that transforms, on the one hand, the social means of subsistence and production into capital, on the other, the immediate producers into wage-labourers. The so-called primitive accumulation, therefore, is nothing else than the historical process of divorcing the producer from the means of production”.

(K. Marx: “Capital”, Volume 1; London; 1974; p. 668).

10: The Sale of Labour Power

Marx defined labour power as human capacity for labour:

“By labour power or capacity for labour is to be understood the aggregate of those mental and physical capabilities existing in a human being, which he exercises whenever he produces a use – value of any description”.

(K. Marx: “Capital”, Volume 1; London; 1974; p. 164).

A worker who does not control means of production has no commodity he can sell in order to live except his **labour power**:

“In order that a man may be able to sell commodities other than labour power, he must of course have the means of production”.

(K. Marx: *ibid.*, Volume 1; p. 165).

Since, as has been demonstrated, the Soviet workers have been expropriated of the means of production, they have now no means of living except to **sell their labour power** to those who control the means of production – that is, to the new class of Soviet capitalists.

Naturally, contemporary Soviet propagandists who wish to present Soviet society as “socialist”, **deny** that Soviet workers sell their labour power, **deny** that labour power in the Soviet Union is a commodity:

“In a socialist country (i.e., in the contemporary Soviet Union – WBB) the economic laws that make labour power a commodity do not exist”.

(E.N. Zhiltsov: “Concerning the Subject of the Economics of Higher Education”, in: “Vestnik Moskovskogo universiteta: Seriya ekonomika” (Journal of Moscow University: Economic Series), No. 1, 1973, in: “Problems of Economics”, Volume 17, No. 5; September 1974; p. 76).

“Under socialism (i.e., in the contemporary Soviet Union – WBB) labour power is not a commodity”.

(V.M. Batyrev: “Commodity-Money Relations un-

der Socialism”, in: “The Soviet Planned Economy”; Moscow; 1974; p. 156).

Such propagandists refer to Soviet workers as “**disposing over**” their labour power – suggesting that the right to do so is a “benefit” enjoyed by Soviet workers and not by those in orthodox capitalist countries:

“Under socialism,.. a working person constantly retains the right to dispose freely over his labour power. He realises this right by concluding a labour contract with enterprise”. (A. Sukhov: “Labour Mobility and its Causes”, in: “Nauchnye doklady vysshei shkoly: Ekonomicheskie nauki” (Scientific Reports of Higher Schools: Economic Science), No. 4, 1972, in: “Problems of Economics”, Volume 17, No. 7; November 1974; p. 29).

But since Soviet workers “**dispose over**” their labour power by “disposing of” it to enterprises **in return for money** – wages – the term “disposition” must be regarded as a mere euphemism for “**sale**”.

11: The Value of Labour Power

As has been shown, in the contemporary Soviet Union labour power is **bought and sold**: it is a **commodity**.

The **value** of labour power, according to Marx's analysis, is determined, like that of any other commodity, by **the amount of socially necessary labour required for its production**, i.e., by the value of the means of subsistence conventionally – in a particular society at a particular time – **required for the maintenance of the worker and his dependents**:

“The value of labour power is determined, as in the case of every other commodity, by the labour time necessary for the production, and consequently also for the reproduction, of this special article.. In other words, the value of labour power is the value of the means of subsistence necessary for the maintenance of the labourer...

On the other hand, the number and extent of his so-called necessary wants, as also the modes of satisfying them,... depend... to a great extent on the degree of civilization of a country In contradistinction therefore to the case of other commodities, there enters into the determination of the value of labour power a historical and moral element. Nevertheless, in a given country at a given period the average quantity of the means of subsistence necessary for the labourer is practically known...

The sum of the means of subsistence necessary for the production of labour power must include the means necessary for the labourer's substitutes, i.e., his children, in order that this race of peculiar commodity- owners may perpetuate its appearance in the market.”

(K. Marx: “Capital”, Volume 1; London; 1974; p. 167, 168).

Contemporary Soviet economists, denying that labour power is a commodity in the Soviet Union, are compelled to declare that here the concept “value of labour power” **does not exist**:

“Since in a socialist society the economic laws that make labour power a commodity do not exist, the category ‘value of labour power’ is also absent”.

(E.N. Zhiltsov: “Concerning the Subject of the Economics of Higher Education”, in: “Vestnik Moskovskogo universiteta: Seriya ekonomika” (Journal of Moscow University: Economic Series), No. 1, 1973, in: “Problems of Economics”, Volume 17, No. 5; September 1974; p. 76).

But, although using circuitous language to say so, they are compelled to **admit** the existence of the concept of “value of labour power” in the Soviet Union in reality. The “expenditures of labour on the cost of reproducing labour power”, or the “cost of reproducing labour power” are, they say, “assessed in value terms” which are precisely equivalent to the value of labour power as analysed by Marx:

“The objective factor which determines this level (of wages – WBB) is the need to provide factory and office workers... with the means of livelihood sufficient for the reproduction of labour power....

The general law of the need to replace the expenditure of labour power operates under socialism. Its substance is that society objectively needs to reproduce labour power and restore the workers’ physical and mental energies expended in the production process and has to provide workers and their families with the material and cultural means of livelihood.”

(Y.L. Manevich: “Wages Systems”, in: “The Soviet Planned Economy”; Moscow; 1974; p. 230).

“Under socialism,... the expenditures of labour on the reproduction of skilled labour power are assessed in value terms. The cost of reproducing skilled labour power is the value assessment of equivalents of the living means that form the fund for the compensation of labour power or, in other words, it is the monetary assessment of the standard of living of the population of socialist society

in a certain period of time”.
(E.N. Zhiltsov: *ibid.*; p. 76).

These economists claim that the “cost of reproducing labour power” in the Soviet Union is **distinguished** from the value of labour power in orthodox capitalist countries by the fact that **the former rises with the development of productive forces:**

“Under socialism, the specific feature of the law of the reproduction of labour power and the extended reproduction of workers’ living conditions is the direct and immediate link between these conditions and the development of the productive forces. This is one sign of the tremendous advantages of the socialist economy over the capitalist... Under socialism the development of the productive forces not only provides suitable opportunities for raising wages but also created the need to increase them in full conformity with the growth of material resources available to society.”
(Y.L. Manevich: *ibid.*; p. 230-1).

But Marx held that the value of labour power depends partly on the “degree of civilization” existing in a particular country at a particular time. Thus, if the productivity of labour rises, the degree of civilisation rises and **so also the value of the means of subsistence conventionally required for the maintenance of the worker and his dependents and therefore the value of labour power:**

“The value of labour power rises because there is a rise in the value of the means of subsistence required for its reproduction.”
(K. Marx: *ibid.*; Volume 3; p. 114).

This is **admitted** by contemporary Soviet economists:

“Under capitalism, of course, the general law of growing needs also operates”.
(Y.L. Manevich: *ibid.*; p. 231).

12: The Price of Labour Power

The **price of labour power** (i.e., the level of **wages**) **fluctuates** in a competitive labour market like the price of any other commodity around its value in accordance with relation of supply and “demand” on the market:

“Wages will rise and fall (in a competitive labour market – WBB) according to the relation of supply and demand, according to the turn taken by competition between the buyers of labour power, the capitalists, and the sellers of labour power, the workers. Within these variations, however, the price of labour (power – WBB) will be determined... by the labour time necessary to produce this commodity – labour power” (K. Marx: “Wage-Labour and Capital”, in: “Selected Works”, Volume 1; London; 1943; p. 262).

As has been said, wage levels in the contemporary Soviet Union continue to be regulated by the central state apparatus. But, as in orthodox capitalist countries, this state regulation of wage levels is intended to **bring the power of the state to the assistance of enterprise managements in resisting pressure from their organised workers to force up the level of wages in contradiction with the aim of ensuring that real wages grow more slowly than productivity of labour. It is intended, in other words, to resist the “monopoly” power of the workers in so far as this may be brought about by genuine trade union organisation** (in the case of the contemporary Soviet Union this means, as will be shown in the section entitled “**Corporatism**”, organisation **outside the official “trade union” channels**). it is **not** intended to – and **does not – eliminate competition** between buyers and sellers of labour power and the resultant fluctuation of the price of labour power around its value in accordance with the relation of supply and “demand” on the labour market.

Thus, **enterprises compete with one another for labour power:**

“Circumstances prompt new enterprises to entice personnel, especially skilled personnel, from old

enterprises. Such a practice is widespread".
(E.G. Antosenkov: "The Availability of Housing and Personnel Turnover", in: "Izvestia sibirskogo otdeleniya Akademiy Nauk SSSR: Seriya obshchestvennykh nauk" (Journal of the Siberian Section of the Academy of Sciences of the USSR; Social Science Series), No. 11. 1972, in: "Problems of Economics", Volume 16, No. 3; July 1973; p. 65).

In this competition for labour power, enterprises use, of course, not only the attraction of **higher wages**, but also those of **higher bonuses and higher welfare services. This will be discussed in later sections.**

On the other hand, contemporary Soviet economists admit that the **high mobility** of Soviet workers is primarily due to the **competitive search for such higher wages and better living conditions.**

"In 1967 5.5 million persons moved from one city to another, 3.1 million moved from villages to cities, and 1.5 million moved from cities to villages. In addition, several million persons moved from one village to another".

(V. Perevedenstev: "Migration of the Population and the Utilisation of Labour Resources", in: "Voprosy ekonomiki" (Problems of Economics), Volume 13, No. 1; March 1971; p. 40).

"Manpower turnover is influenced by a number of factors that are basically connected either with working conditions or with differences in levels of material well-being...

Approximately 50% of all persons leaving their jobs at their own volition do so for these reasons (i.e., level of earnings, housing and social conditions – WBB)...

At the Altai Tractor Plant... 11.3% of the total number leaving their jobs did so because of dissatisfaction with their wage level. In Leningrad and Ufa... 20-21% of the workers left their jobs for this

reason”.

(L. Kuprienko: “Influence of the Standard of Living on the Movement of Labour Resources”, in: “Voprosy ekonomiki” (Problems of Economics), No. 3, 1972, in: “Problems of Economics”, Volume 15, No. 5; September 1972; p. 63-4, 65).

“Of late the scale of variable migration has been increasing with ever greater intensity in the USSR”.

(L. Lugovskaia: “Current Problems of Urbanisation”, in: “Planovoe khoziaistvo” (Planned Economy), No. 8, 1972, in: “Problems of Economics”, Volume 16, No. 1; May 1973; p. 96).

“Some workers repeatedly switch one job for another in search of maximum advantages, including advantages in housing”.

(E.G. Antonsenkov: *ibid.*; p. 65).

“In the course of a year 59.1% of all personnel in the national economy take part in real transfers (i.e., change their jobs either within the same enterprise or to a different enterprise – WBB)...

Every year in the national economy several tens of millions of persons make transfers, their overall number exceeds 100 million. Approximate calculations show that not more than half of this movement is associated with the interests of the development of production and of the work force”.

(V.S. Nemchenko: “Mobility of Labour Resources”, in: “Vestnik Moskovskogo universiteta: Seriya ekonomika” (Journal of Moscow University: Economic Series), No. 1, 1974, in: “Problems of Economics”, Volume 17, No. 6; October 1974; p. 81, 88).

“A study of migrants in regions of new industrial development in the West Siberian lowlands, with a relatively unfavourable climate, revealed that over

50% of the migrants came in quest of higher earnings... Approximately 70% of those persons who have quit their jobs to take positions in new places receive higher wages than they did in the old places”.

(A. Sukhov: “Labour Mobility and its Causes”, in: “Nauchnye doklady vysshei shkoly: Ekonomicheskie nauki” (Scientific Reports of Higher Schools: Economic Science), No. 4, 1974, in: “Problems of Economics”, Volume 17, No. 7; November 1974; p. 26, 31).

“Personnel turnover... was 19.8% in industry in 1972”.

(V. Korshagin & V. Filippov: “Labour Activity of the population”, in: “Planovoe khoziaistvo” (Planned Economy), No. 8, 1974, in: “Problems of Economics”, Volume 17, No. 9; January 1975; p. 99).

Thus, there is, in the contemporary Soviet Union, **competition** between buyers and sellers of labour power. And since the labour market is a competitive one, the price of labour power **fluctuates** around its value in accordance with the relation of supply and “demand” on that labour market.

The Soviet labour market was, in 1967, given concrete form by the establishment of **labour exchanges, called “Manpower Utilisation Agencies”**:

“In 1967 Republic Manpower Utilisation Agencies were established. They are responsible for the job placement of workers and employees”.

(V. Korshagin: “Utilisation of Manpower Resources in the New Five-Year Plan”, in: “Planovoe khoziaistvo” (Planned Economy), No. 4, 1971, in: “Problems of Economics”, Volume 14, No. 6; October 1971; p. 46).

Under the socialist system formerly in operation in the Soviet Union, workers’ wages were based, in all spheres where this was practicable, on **piece-work** in accordance with the principle of so-

cialism that a worker's remuneration should be **proportional to the quantity and quality of the work performed**:

"In... socialism,... termed by Marx the first phase of communism,... we.. have... the distribution of articles of consumption 'according to the amount of work performed' (V.I. Lenin: "The State and Revolution", in: "Selected Works", Volume 7; London; 1946; p. 84-5).

"The basic system for the remuneration of labour in our country is the piece-work system, pure and simple".

(N. Shvernik: Report to the 9th. Congress of Trade Unions (1932), cited in: S. & B. Webb: "Soviet Communism: A New Civilisation"; London; 1935; p. 704).

In a **capitalist** economy, there is, of course, **pressure from management to cut piece-work rates** as workers increase productivity; in a **socialist** economy this pressure **does not exist**:

"Where profit-making is the recognised object of industrial undertakings, there is a constant danger of the employer taking advantage of the worker's increased output by 'cutting the rate' Where the profit-making motive has been swept away, the danger of the rate being cut in order to increase the owner's profits is eliminated".

(S. & B. Webb: *ibid.*; p. 706).

Since the "economic reform" and the reintroduction of **profit** as the motive and regulator of social production in the Soviet Union, **pressure to cut piece-work rates** with increased productivity **occurs**, just as in an orthodox capitalist country:

"The introduction of new technology... involves the downward revision of piece-rates".

(E.G. Liberman: "Economic Levers for Fulfilling the Plan for Soviet Industry", in: M.E. Sharpe (Ed.): "Planning, Profit and Incentives in the USSR", Volume 1; New York; 1966; p. 59).

Further, Marx points out that in an orthodox capitalist economy

where there is strong resistance on the part of the workers to downward revision of piece-rates in such circumstances, managements often prefer to switch from piece-work to **time-rates** as the basis of wage payments:

“Where a particular rate of piece-wage has for a long time been fixed by tradition, and its lowering, therefore, presented especial difficulties, the masters.. sometimes had recourse to its compulsory transformation into time-wages”.

(K. Marx: “Capital”, Volume 1; London; 1974; p. 520).

Contemporary Soviet economists urge that the same process be adopted in the Soviet Union:

“Piece-work remuneration sometimes hinders the introduction of new technology... Neither the shop superintendents, nor the foremen, nor the workers themselves have sufficient inducement for corresponding reductions in the rates of payment. The time-and bonus system of payment is free from these shortcomings. The more our industry is mechanised and automated, the more reason there is to pay the worker a fixed rate”.

(E.G. Liberman: *ibid.*; p. 59).

“The piece-rate system will gradually be used less and less because of the spreading of comprehensive mechanisation and automation.”

(Y.L. Manevich: “Wages Systems”, in: “The Soviet Planned Economy”; Moscow; 1974; p. 254).

and, in fact, there has been, in recent years, a **decrease** in the proportion of industrial workers paid on the basis of **piece-work rates** and an **increase** in the proportion paid on the basis of time rates:

% of industrial workers paid on the basis of

piece-work rates or time rates

1962: 60.5% 39.5%

1965: 57.6% 42.4%

1969: 56.6% 43.4%
(Y.L. Manevich: *ibid.*; p. 246).

As has been said in the previous section, Marx held that in a capitalist society real wage levels tend to rise with the development of the productive forces. The aim of a capitalist class, however, is to try to ensure that, even if real wages grow, they **grow more slowly than the growth of the productivity of labour.** In these conditions, the proportion of total national income received by the working class **falls** despite the rise in real wages, i.e., its **exploitation increases.**

This is, naturally, **also the policy of the Soviet capitalist class:**

“An important condition for development of the economy of the enterprise is a growth in labour productivity that outstrips the growth of wages. Only in such a case can the enterprise achieve a systematic drop in its production costs and an increase in accumulations”.

(V. Sokolov, M. Nazarov & N. Kozlov: “The Firm and the Customer”, in: “*Ekonomicheskaya gazeta*” (Economic Gazette), No. 1, 1965, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 1; New York; 1966; p. 265).

“The priority growth of labour productivity over the growth in wages must be strictly observed”.
 (“Soviet Economy Forges Ahead”; Moscow; 1973; p. 18-19).

“Besides the general laws inherent in the socialist economy as a whole, there are a number of regularities which appear in different forms in each separate sector of the economy... Among them.. may be mentioned:... the faster growth of labour productivity as compared with the rise in average wages”.

(S. Kamenitser: “The Experience of Industrial Management in the Soviet Union”; Moscow; 1975; p. 19-20).

This aim was **achieved** during the period of the **“9th Five Year Plan” (1971-75)**, when the average wages of workers rose by 20%, while the productivity of labour rose by 23%.

(A.N. Kosygin: “Guidelines for the Development of the National Economy of the USSR for 1976-1980”, 25th. Congress CPSU; Moscow; 1976; p. 13, 18).

It is planned to accentuate this trend during the period of the **“10th Five Year Plan” (1976-80)**, when it is envisaged that the average wages of workers will rise by **16-18%**, while the productivity of labour will rise by 27%. (A.N. Kosygin: *ibid.*; p. 24, 35).

Naturally, therefore, most contemporary Soviet economists agree that the one aspect of “centralised economic planning” which ought to be retained is **state control of wage levels:**

“In drafting a plan an enterprise must, of course, adhere to established nation-wide standards, such as official salaries, rates of basic wages for manpower”.

(E.G. Liberman: “Planning Production and Long-term Operation”, in: “Voprosy ekonomiki” (Problems of Economics), No. 8, 1962, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 1; p. 71).

“The introduction of a unified state wage rate system... (has) created the requisites for raising the economic level of planning labour productivity and wages “.(B. Sukharevsky: “On Improving the Forms and Methods of Material Incentives”, in: “Voprosy ekonomiki” (Problems of Economics), No. 11, 1962, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 1; p. 115).

“Some comrades thought that it would be expedient to do away with the system of centrally determined wage rates and salaries and allow each enterprise to solve this problem in its own way. Such a view is incorrect... The socialist system of economy cannot do without the state regulation of wages”.

(A. Volkov: “A mighty Stimulus for the Develop-

ment of Production”, in “Pravda” (Truth), November 14th., 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 169).

“Centrally established basic rates and salaries constitute, as before, the basis of wages.... State regulation of wages is necessary....The new system of economic stimulation of production preserves the state regulation of wages”. (B. Sukharevsky: “The Enterprise and Material Stimulation”, in: “Ekonomicheskaya gazeta” (Economic Gazette), No. 49, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 216-217).

13: Managerial Salaries

The managerial and higher technical personnel of a Soviet industrial enterprise receive monthly salaries. The levels of these are fixed by the state, and vary according to qualifications, the size and position of the enterprise etc.:

“Individual monthly salaries are set for executives, engineering and technical personnel... The state fixes salary differentials depending on the importance of an economic sector, enterprise or shop, on working conditions, the area in which an enterprise is located, and so on. In addition, the amount of salary always depends on the volume of work at the enterprise etc., degree of responsibility and complexity of the production process.

Specially well-qualified executives or engineers employed in major sections of an enterprise, office or organisation receive personal salaries not, as a rule, exceeding the normal salary by more than half”.

(Y.L. Manevich: “Wages Systems”, in: “The Soviet Planned Economy”; Moscow; 1974; p. 251-2).

In describing industry in orthodox capitalist countries, Soviet sociologists draw attention to:

“...the ‘key position’ of the foreman in bringing ideological influence to bear on workers”.

(N. Bogomolova: “Human Relations Doctrine: Ideological Weapon of the Monopolies”; Moscow; 1973; p. 83).

In the Soviet Union also, however, since the “economic reform”, the role of the foreman in an industrial enterprise has been raised from that of (in Marx’s words) “non-commissioned officer” to that of full member of management, with appropriate increase in his wage-level:

“Top administrative personnel.. include, first and foremost, the director, production shop chiefs and foremen”.

(S. Kamenitser: "The Experience of Industrial Management in the Soviet Union"; Moscow; 1975; p. 65).

"It has long been suggested that the foreman be given more responsibility and higher wages.. Since the foreman now contributes more to production, directors now have the right to raise the wages of highly skilled foremen and technical personnel in order to provide an additional incentive, this increase amounting to up to 30% of their fixed salaries, to be paid out of the planned wages fund".

(A. Volkov; "Profit and Personal Incentive", in: "Pravda" (Truth), November 14th., 1965, in: "The Soviet Economic Reform: Main Features and Aims"; Moscow; 1967; p. 97).

On the shop floor the most highly skilled grade of worker receives a wage twice that of the least skilled grade:

"At present one scale of rates is in operation in every sector. Most enterprises have a scale which consists of six grades with a ratio between the higher and lower of 1:2".

(Y.L. Manevich: *ibid.*; p. 242-3).

The monthly salaries of managerial and technical personnel are naturally **higher** than the wages of the average shop-floor worker:

"A foreman's salary in a top-category section is 10-20% higher than the basic wage rate for a highly qualified worker; the salary of a foreman in the lowest 3rd. group is 10-20% higher than the basic wage rate for average-qualified workers in this section Shop superintendents in the higher group in all sectors are paid more than twice as much as a foreman in the lowest group. The salary paid to an enterprise manager (director) is never more than treble the salary of a foreman. The chief engineer's salary is 85-100% that of the director".

(Y.L. Manevich: *ibid.*; p. 252).

On this basis, the salaries of managerial and higher technical personnel bear the following relationship to the basic wage rate of an average shop floor worker:

Average shop floor worker 1.5 units

Foreman 1.6 to 2.4 units

Shop superintendent (more than) 3.2 units

Chief engineer (up to) 4.1 to 7.2 units

Director (up to) 4.8 to 7.2 units

Specially well-qualified director (up to) 7.2 to 10.8 units

That is, **the salary of an enterprise director is up to 7.2 times the basic wage of a shop floor worker of average skill.**

This wage/salary differential between shop floor workers and management personnel forms, however, only **a minor part of the actual income differential** between these categories; the greater part of the latter, as will be demonstrated, accrues from differentials in **“bonus payments”**.

14: “Price Control”

According to Marx, of whom contemporary Soviet economists claim to be disciples, the value of a commodity is determined by the amount of socially necessary labour involved in its production:

“That which determines the magnitude of the value of any article is the amount of labour socially necessary ... for its production”.

(K. Marx: “Capital”, Volume 1; London; 1974; p. 47).

A market is an area where prospective buyers and sellers of a commodity are in contact.

The price of a commodity is the amount of money for which its prospective vendor is willing to sell it in a particular market at a particular time.

In a market where prospective buyers and sellers of a commodity are in competition with one another, the price of that commodity fluctuates around its value – above or below it – according to the relation between supply of and effective demand for that commodity in the market:

“Their (i.e., commodities’ – WBB) value is the centre of gravity around which their prices fluctuate. If supply equals demand.. commodities are sold at their market values... The relation of demand and supply... explains the deviations of market prices from market values”.

(K. Marx: *ibid.*, Volume 3; p. 178, 189, 190).

Contemporary Soviet propagandists claim than Stalin “denied the operation of the law of value in a socialist economy”:

“It is well known that the operation of the law of value in the socialist economy was generally denied for a long time with the blessing of Stalin”.

(L. Gatovsky: “The Role of Profit in a Socialist Economy”, in: “Kommunist” (Communist), No. 18, 1962, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 1; New

York: 1966; p. 95).

This claim is **untrue**. Stalin is on record as saying:

“It is sometimes asked whether the law of value exists and operates in our country, under the socialist system.

Yes, it does exist and does operate. Wherever commodities and commodity production exist, there the law of value must also exist”.

(J.V. Stalin: “Economic Problems of Socialism in the USSR”; Moscow; 1952; p. 23).

What, in fact, these propagandists mean by saying that Stalin “denied the operation of the law of value” under socialism is that, during the period when a socialist society existed in the Soviet Union, the price of a commodity was often **fixed by the state at a radically different level from its value**:

“At that time the approach to price itself was voluntaristic. Price was artificially divorced from its objective basis – value”,
(L. Gatovsky: *ibid.*; p. 95).

or, in other words, the operation of the law of value was **strictly limited**:

“The law of value exercises its influence on production But.. the sphere of operation of the law of value under our economic system is strictly limited and placed within definite bounds”.
(J.V. Stalin: *ibid.*; p. 23, 25).

Under the socialist system which formerly existed in the Soviet Union, the prices of commodities were **fixed at all levels by the state**. In fixing the price of a commodity, its **value** was **taken into account**, but the actual price was determined **in accordance with the state’s assessment of social requirements**. Thus, over a considerable period the price of **vodka** was fixed **above** its value in order to discourage its consumption; on the other hand, the price of **clothing** was fixed **below** its value in order to assist the working people to buy more clothes. As a result of this price-fixing policy, enterprises in the vodka industry made an **above-average rate of**

profit, while enterprises in the clothing industry made a **below-average rate of profit**. But since virtually all the profits of all industries accrued to the state and not to the individual enterprises, this was **of book-keeping significance only**.

As in the case of production assets, the rate of profit made by an enterprise – defined since the “economic reform” as “the supreme criterion of the efficiency of an enterprise” – could become a reality and function as the regulator of social production only if this “voluntaristic” method of fixing prices was **abolished** and **prices were brought into line with values**.

In the propaganda campaign preceding and associated with the “economic reform”, therefore, the demand was put forward that the prices of commodities should be brought as closely as possible into line with their **values**, i.e., with **the amount of socially necessary labour necessary for their production**:

“Prices must, to a growing extent, reflect the socially necessary outlay of labour”.

(“Programme of the Communist Party of the Soviet Union”; Moscow; 1961; p. 83).

“Prices at which an enterprise sells its output should be based on the socially necessary labour outlays”.

(L. Gatovsky: *ibid.*; p. 91).

“Price must reflect the sum total of the socially necessary input of labour into the manufacture of the product”.

(L. Leontiev: “The Plan and Methods of Economic Management”, in “Pravda” (Truth), September 7th., 1964, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 1; p. 211).

“Prices must increasingly reflect socially necessary outlays of labour”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives in Industrial Production”, in: “Izvestia” (News), September 28th., 1965, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 29).

“Prices must, to the greatest possible degree, approximate the socially necessary outlays of labour”.

(V. Garbuzov: “Finances and Economic Stimuli”, in: “*Ekonomicheskaya gazeta*” (Economic Gazette), No. 41, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 51).

“The strengthening of economic methods of planning... call for the closest possible approximation of prices to the socially necessary labour expenditures”.

(N.K. Baibakov: “Tasks of Economic planning in the New Conditions”, in: “*Pravda*” (Truth), October 29th., 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 100).

“Prices should come as close as possible to the level of socially necessary outlays of labour”

(E.G. Liberman: “Profitability of Socialist Enterprises”, in: “*Ekonomicheskaya gazeta*” (Economic Gazette), No. 51, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 229).

The new **State Committee for Prices**, established under the “economic reform”, was charged with elaborating a **new system of wholesale prices**,

“...basing its decisions on the need to bring prices as close as possible to levels of socially necessary outlays of labour”.

(A.N. Kosygin: *ibid.*; p. 30).

In other words, the price of a commodity was to be based on the **“equilibrium price”**, the price which the commodity would have in a competitive market under conditions where supply corresponded to effective demand:

“The so-called ‘equilibrium’ price principle... presupposes the establishment of prices at a level that will guarantee the necessary correspondence be-

tween supply and demand... The equilibrium price as an element in the market economy becomes a very important and effective means of regulating the social production process... The equilibrium price principle... is a concrete expression of the law of supply and demand”.

(A. Levin: “The Market in the System of Socialist Reproduction: The Equilibrium Price Principle”, in: “Nauchnye doklady vysshei shkoly: Ekonomicheskie nauki” (Scientific Reports of Higher Schools: Economic Science), No. 1, 1969, in: “Problems of Economics”, Volume 12, No. 7, November 1969; p. 39-40).

In his analysis of a competitive capitalist economy, Marx defined the **price of production** of a commodity as its **cost of production plus average profit**:

“The price of production of a commodity is equal... to its cost price plus the average profit”.

(K. Marx: op. cit., Volume 3; p. 157).

and established that **the price of production of a commodity tended to approximate to its value**:

“In the case of capitals of average, or approximately average composition the price of production is... the same, or almost the same, as the value... All other capitals, of whatever composition, tend towards this average under pressure of competition”.

(K. Marx: op. cit., Volume 3; p. 174).

Thus, Marx held that the price of production of a commodity tended to be merely **a converted form of its value**:

“The tendency necessarily prevails to make the prices of production merely converted forms of value”.

(K. Marx: op. cit., Volume 3; p. 173-4).

Contemporary Soviet economists **endorse** Marx’s formulation on this question:

“In an economy of developing commodity production, value is transformed into the price of production.... The latter is only a transformed form of value”.

(V. Diachenko; “A Lever of Economic Stimulation”, in: “*Ekonomicheskaya gazeta*” (Economic Gazette), No. 45, 1965, in; M.E. Sharpe (Ed.): op. cit., Volume 2; p. 126).

“The price of production corresponds to the socially necessary labour outlays, to the actual value of the product”.

(L. Vaag: “According to a Single Rate of Profit”, in: *ibid.*; p. 144).

Hence, in the propaganda campaign preceding and associated with the “economic reform”, the demand that the prices of commodities should be brought into line with their values was also put forward in the form of the demand that these prices should be brought as closely as possible **into line with prices of production:**

“The author’s (i.e., Liberman’s – WBB) ideas lead to the conclusion that the methodological basis of price formation in a planned socialist economy should be the price of production, which is characteristic of the capitalist system of economy”.

(A. Zverev: “Against Over-Simplification in Solving Complex Problems”, in: “*Voprosy ekonomiki*” (Problems of Economics), No. 11, 1962, in; M.E. Sharpe (Ed.): op. cit., Volume 1; p. 148).

“Marx provided an analysis of the commodity as a product of capitalist production, and he showed that the price of such a commodity is determined not by value directly, but by its modified form – the price of production. An analysis of commodities as products of socialist production leaves no doubt that their prices must be fixed... by the ‘price of production formula’”.

(L. Leontiev: *ibid.*; p. 211-2).

“The system of price formation should be based on prices of production”.

The need to bring the price of commodities into the closest possible equivalence with their values or prices of production was the official reason for the **general “reform” of wholesale prices** of industrial products put into effect on July 1st., 1967. By this measure, wholesale prices were **raised** by an average of **8%** in **industry as a whole**, and by an average of **15%** in heavy industry. (L. Maizenberg: “Improvements in the Wholesale Price System”, in: “Voprosy ekonomiki” (Problems of Economics), No. 6, 1970, in: “Problems of Economics”, Volume 13, No. 10; February 1971; p. 46).

Some wholesale prices were raised in this “reform” by **large amounts** – for example, that of **coal by 78%**, (V. Sitnin: “Wholesale Prices; Results and Tasks”, in: “Ekonomicheskaya gazeta” (Economic Gazette), No. 6, 1968, in: “Problems of Economics”, Volume 11, No. 5; September 1968; p. 27).

The wholesale price “reform” was stated to have the **aim** of creating conditions under which each normally functioning industrial enterprise could function **“profitably”**:

“The wholesale price reform... was intended to create conditions for profitable work in all branches of industry and each normally functioning enterprise”.

(V. Sitnin: *ibid.*; p. 26).

Soviet economists declared the “reform” to have been **successful** in this aim:

“These basic aims of the (wholesale price – WBB) reform have been accomplished”.

(V. Sitnin: *ibid.*; p. 26).

In fact, the wholesale price “reform” raised the rate of industrial profit **5-7% higher** than had been officially envisaged:

“The planning of the new wholesale prices put into effect on July 1, 1967 was based on the projection that industry-wide profitability would be approximately 15%. In fact, however, in 1968 it proved to be 20.1%, and in the case of enterprises operating under the new system of planning and economic

incentive it was 22.2%.”

I. Sher; “Long-term Credit for Industry”, in: “Voprosy ekonomiki” (Problems of Economics), No. 6, 1970, in: “Problems of economics”, Volume 13, No. 8; December 1970; p. 47).

Since the **retail prices of consumer goods** were not raised, however, **enterprises engaged in the retail distribution of industrial consumer goods** suffered – and have continued to suffer – **a fall in their rate of profit:**

“In retail establishments average profits (as a percentage of total sales) were... in 1972, 1.88%”.

(A.A. Belov: “Trade in the USSR”, in: “The Soviet Planned Economy”; Moscow, 1974; p. 197).

But the wholesale price “reform” was only the **first step** in the “economic reform” in relation to prices. The aim of bringing about the social regulation of production by means of the market, through the profit motive, required that **prices should fluctuate according to the varying relation between supply and effective demand on the market.**

Accordingly, in the propaganda campaign preceding and associated with the “economic reform”, the demand was also put forward that prices should be **“more flexible”**:

“Price formation... should be more flexible”.

(I. Kasitsky: “The Main Question: Criteria for Premiums and Indices Planned for Enterprises”, in: “Voprosy ekonomiki” (Problems of Economics), No. 11, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 139).

“The need for **flexible and dynamic price formation** is dictated by a number of tasks”.

(L. Leontiev: *ibid.*; p. 211).

“The stimulating role of profit presupposes more flexible prices”

(G. Kosiachenko: “The Plan and Cost Accounting”, in: “Finansy SSSR” (USSR Finances), No. 12, 1964 in: M.E. Sharpe (Ed.): op. cit., Volume 1;

p. 245).

“A big role will be played.. by more flexible planning of prices...Disregard for the law of demand and supply exerts a negative effect on the economy”..

(L. Gatovsky: “Unity of Plan and Cost Accounting”, in: “Kommunist” (Communist), No. 15, 1964 in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 89).

“In fixing prices in a planned manner in a socialist economy, the changes in market conditions must be taken into account. If, for instance, retail prices fail to reflect changes in market conditions, they cannot serve as an instrument of a planned economic policy”.

(L. Konnik: “Planning and the Market”, in: “Voprosy ekonomiki” (Problems of Economics), No. 5, 1966, in: “Problems of Economics”, Volume 5, No. 8; December 1966; p. 27).

It was made clear, in fact, that the demand for “more flexible” prices meant that **prices should be fixed by enterprises themselves** in accordance with their estimate of supply and effective demand on the market:

“It (i.e., the enterprise – WBB) should be given the right to fix the price with the agreement of the customer”.

(V. Belkin & I. Berman: “The Independence of the Enterprise and Economic Stimuli”, in: M.E. Sharpe (Ed): op. cit., Volume 1; p. 229).

“Measures to increase the flexibility.. of price formation have also been adopted recently... According to these methods, enterprises themselves change prices of their output...”

Enhancement of the role of the consumers in forming prices... will make it possible... further to extend the rights of enterprises in price formation. This will make prices even more flexible.”

(P.G. Bunich: “Methods of Planning and Stimulation”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 43).

The difficulty of reconciling this conception with the fiction that centralised economic planning, including price control, was being “maintained”, was solved by Soviet propagandists by presenting the central “planning organs” as issuing “price norms”, while leaving enterprises to fix their own “concrete prices”:

“It is essential to incorporate extensively the normative method of establishing prices in the practice of price formation. The essence of this method is the centralised confirmation of base prices and their norms.. and the establishment of concrete prices by enterprises or associations themselves”.

(A. Komin: “Problems in the Methodology and Practice of Planned Price Formation”, in “Planovoe khoziaistvo” (Planned Economy), No. 9, 1972, in: “Problems of Economics”, Volume 16, No. 1; May 1973; p. 47).

Naturally, these “concrete prices” often departed fundamentally from the “price norms” issued by the central “planning organs”:

“Experience in the elaboration of the prospective development of the national economy until 1980, and of five-year plans existing (at the time of the elaboration) prices, has shown that subsequent price revisions fail to maintain the continuity of long-range and current plans not only with respect to targets in terms of value but also with regard to general value proportions”.

(V. Kotov: “Prices: The Instrument of National Economic Planning and the Basis of the Value Indices of the Plan”, in: “Planovoe khoziaistvo” (Planned Economy), No. 9, 1972, in: “Problems of Economics”, Volume 16, No. 1; May 1973; p. 68).

On this basis, Soviet economists admitted that “centralised economic planning” – even as a totalisation of the economic plans of

individual enterprises – was **virtually impossible**:

“As a result of the practice of making partial changes in price – a practice that has become established in the last few years – higher-echelon economic organs could not correctly plan”

(I. Usatov: “The Elaboration of Plans and the System of Prices”, in: “Nauchnye doklady vysshei shkoly: Ekonomicheskie nauki” (Scientific Reports of Higher Schools; Economic Science), No. 8, 1972, in: “Problems of Economics”, Volume 15, No. 11; March 1973; p. 54).

“It is practically impossible to compile a five-year plan while.. accounting for changes in wholesale prices. At a time when the national economy has not mastered new wholesale prices, it is extremely difficult to compile such a plan from the standpoint of the potential of modern methodology”.

(A. Komin: *ibid.*; p. 48).

Soviet economists were therefore set the task of **forecasting indeterminate price levels**

I. Babynin & R. Belousov: “Forecasting Wholesale Prices”, in: “Voprosy ekonomiki” (Problems of Economics), No. 4, 1971, in: “Problems of Economics”, Volume 14, No. 5; September 1971; p. 42-59).

and of **predicting rates of profit on the basis of indeterminate price trends**:

(L. Veger: “Calculating Economic Effectiveness under Conditions of Indeterminacy”, in: “Voprosy ekonomiki” (Problems of Economics), No. 2, 1972, in: “Problems of Economics”, Volume 15, No. 4; August 1972; p. 41-62).

15: The Retention of Profit by the Enterprise

In order that profit may function as the regulator of social production under conditions where production is planned by the enterprises themselves, each enterprise must retain sufficient of the profit it makes to enable adequate material incentives to be drawn from it to be of significant economic interest to the personnel of the enterprise responsible for making that profit.

A feature of the propaganda campaign preceding and associated with the “economic reform” was, therefore, the demand that the proportion of an enterprise’s profit accruing to the state should be significantly reduced and the proportion retained by the enterprise significantly increased:

“It is necessary to considerably increase the share of the total sum of profit which remains at the disposal of the enterprises and is used by them to expand and improve production, increase their assets, replenish their circulating funds, and for bonuses and the social and cultural needs of their personnel”.

(L. Gatovsky: “The Role of Profit in a Socialist Economy”, in :”Kommunist” (Communist), No. 18, 1962, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 1; New York; 1966; p. 103-4).

“That part of profit which remains at the disposal of the enterprise’s director for purposes of collective and individual incentive... must be increased” (V. Shkatov: “What is Useful for the Country is Profitable for Everyone”, in: “Pravda” (Truth), September 1st., 1964, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 203).

The “economic reform” did increase significantly the proportion of an enterprise’s profits retained by the enterprise:

“It is necessary to leave to the enterprises more of their profits”.

(A.N. Kosygin: “On Improving Industrial Man-

agement, Perfecting Planning and Enhancing Economic Incentives in Industrial Production”, in: “Izvestia” (News), September 28th., 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 21).

The average proportion of an enterprise’s profit retained by the enterprise rose between 1966 and 1969 as follows:

1966: 26%

1967: 29%

1968: 33%

1969: 40%

(N.Y. Drogichinsky: “The Economic Reform in Action”, in: “Soviet Economic Reform: Progress and Problems”“, Moscow, 1972; p. 207).

16: “Economic Incentives”

Under the socialist system which formerly existed in the Soviet Union, the system of material incentives to the personnel of an enterprise – other than wages and salaries – was based on **fulfilment, or over-fulfilment, by the enterprise of the targets laid down in the central economic plan:**

“Our present planning methods and practice proceed from the premise that the most reliable assessment of the work of enterprises upon which their financial rewards depend is fulfilment of the plan”.

(E.G. Liberman: “Planning Production and Standards of Long-term Operation”, in: “Voprosy ekonomiki” (Problems of Economics), No. 8, 1962, in: M.E. Sharpe (Ed.): Planning and Incentives in the USSR”, Volume 1; New York, 1966; p. 76).

“The system of material incentives for the personnel (is) mainly based on reward for over-fulfilment of the plan”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning, and Enhancing Economic incentives in Industrial Production”, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 26).

The abolition of centralised economic planning and the establishment of the profit motive as the regulator of social production clearly required the replacement of this system of material incentives to the personnel of an enterprise.

Accordingly, in the propaganda campaign which preceded the “economic reform”, the demand was put forward for its replacement by **a new system** in which these material incentives would be **based on the rate of profit made by the enterprise and drawn from that profit:**

“The higher the enterprise’s profitability, the greater will be its share of the profits.... The larger the profits, the larger the bonus fund”.

(E.G. Liberman: “Cost Accounting and Material

Encouragement of Industrial Personnel”, in: “Voprosy ekonomiki” (Problems of Economics), No. 6, 1955, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 12, 13).

“The main thing here is that all the types of bonuses come out of profits”.

(E.G. Liberman: ““Planning Production and Standards of Long-term Operation”, in: “Voprosy ekonomiki” (Problems of Economics), No. 8, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 71).

“It is proposed to establish a single fund for all types of material incentive and to make it dependent upon profit (in percent of the production assets)”.

(E.G. Liberman: “Plan, Profits and Bonuses”, in: “Pravda” (Truth), September 9th., 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 86).

“The enterprise must possess a fund for material incentive, the size of which must depend upon the actual level of profitability”.

(V.S. Nemchinov: “The Plan Target and Material Incentive”, in: “Pravda” (Truth), September 21st., 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 111).

The “economic reform” brought this system of material incentives into operation:

“At present.. the achievements of the enterprise in increasing profits and the profitability of production do not have any direct effect on the earnings of the staff of the enterprise.

It is necessary to change this system in order to give the personnel a greater material interest. It is necessary to introduce a system under which the enterprise’s opportunities for increasing remuneration of its workers and employees would be determined, above all, by... increased profits and greater

profitability of production...

The enterprises must have at their disposal – in addition to the wage fund – their own source for rewarding personnel for individual achievements and high overall results of enterprise operations. This source must be a part of the profit obtained by the enterprise”.

(A.N. Kosygin: *ibid.*; p. 25-6).

“Under the new conditions, the stimulating role of profit rises considerably... The material incentive funds and the fund for the development of production will be created from profits. The funds must be considerably larger than the previously existing enterprise fund... The greater the profit obtained by the enterprise, the higher will be the allotments to the incentive funds and the fund for the development of production”.

(V. Garbuzov: “Finances and Economic Stimuli”, in: “*Ekonomicheskaya gazeta*” (Economic Gazette), No. 41, 1965, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 49, 50).

In the four years from 1966 to 1969, the average size of the material incentive funds of enterprises rose **four times**. (N. Y. Drogichinsky: “The Economic Reform in Action”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 207).

The method of distribution of these economic incentives among the personnel of each enterprise will be discussed in Section 18: “The Distribution of ‘Socialist Profit’”.

17: “Socialist Profit”

As has been shown, in the Soviet economy since the “economic reform” **profit** is the motive and regulator of social production.

Seeking to present this society as “socialist”, however, contemporary Soviet economists describe this profit as:

“socialist profit”

(E.G. Liberman : “The Plan, Direct Ties and Profitability”, in “Pravda” (Truth), November 21st, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 179).

and claim that it is **qualitatively different from profit in an orthodox capitalist country:**

“Our profit has nothing in common with capitalist profit”.

(E.G. Liberman: “Plan: Profits: Bonuses”, in: “Pravda” (Truth), September 9th., 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 83).

“Under socialism profit differs fundamentally in socio-economic content and role from profit under capitalism”.

(Editorial: “Economic Policy and Work for Communism”, in: “Pravda” (Truth), January 14th, in: “The Soviet Economic Reform; Main Features and Aims”, Moscow; 1967; p. 11).

It is necessary to examine this claim in some detail.

According to Marxism-Leninism, **all value is created by human labour:**

“A use-value, or useful article,.. has value only because human labour in the abstract has been embodied and materialised in it... Labour.. creates and forms the value of commodities... Human labour creates value”.

(K. Marx: “Capital”, Volume 1; London; 1974; p. 46, 53, 57).

Under any social system beyond that of primitive communism, a human being engaged in labour creates, in a particular period of labour, **more value that is require for the subsistence of himself and his dependents** in that period of time. This **surplus produce** – in the sense of produce.

“...beyond the indispensable needs of the direct producer”,

(K. Marx: *ibid.*, Volume 3; p. 795)

– Marx calls

“... the surplus product”

(K. Marx: *ibid.*, Volume 3; p. 795)

and the labour used to produce this surplus product

“...surplus labour”;

(K. Marx: *ibid.*, Volume 3; p. 790)

Contemporary Soviet economists **endorse**, up to this point, Marx’s analysis:

“Primitive man ate or used up what he produced. As civilisation and technology progressed, labour began to create not only the equivalent of working people’s means of subsistence but something more. This something more was the surplus product”.

(E.G. Liberman: “Are We Flirting with Capitalism? Profits and ‘Profits’“, in: “Soviet Life”, July 1965, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 1; p. 304).

But Marx goes on to hold that, once society has advanced beyond the state of primitive communism, once surplus labour and the surplus product come into existence, then – until social development has led to the creation of a socialist or communist society – **this surplus product is appropriated by an exploiting class** which own s the means of production; that is, **surplus labour becomes unpaid labour**:

“This surplus above the indispensable requirements of life.. is unpaid surplus labour for the ‘owner’ of the means of production”.

(K. Marx: *ibid.*, Volume 3; p. 790).

Social systems based on exploitation differ essentially **in the way in which the surplus product**, the product of surplus labour, **is extracted from the worker**:

“The essential difference between the various economic forms of society – between, for instance, a society based on slave-labour and one based on wage-labour – lies only in the mode in which this surplus labour is in each case extracted from the actual producer, the labourer...

Whenever a part of society possesses the monopoly of the means of production, the labourer, free or not free, must add to the working-time necessary for his own maintenance an extra working-time in order to produce the means of subsistence for the owners of the means of production, whether this proprietor be the Athenian *khalos khagathos*, Etruscan theocrat, *civis Romanus*, Norman baron, American slave-owner, Wallachian Boyard, modern landlord or capitalist”.

(K. Marx: *ibid.*, Volume 1; p. 209, 226).

In the case of **capitalist commodity production**, where “free” workers sell their labour power – and **only** in this case – Marx uses the term **“surplus value”** to denote the product of surplus labour:

“Surplus value presupposes capitalistic production”.

(K. Marx: *ibid.*, Volume 1; p. 667).

“The product of this surplus labour assumes the form of surplus value when the owner of the means of production finds the free labourer – free from social fetters and free from possessions of his own – as an object of exploitation and exploits him for the purpose of the production of **commodities**”.

(F. Engels: “Herr Eugen Dühring’s Revolution in Science”; Moscow; 1959; p. 287).

In a broad and loose sense, Marx equates surplus value with **profit**:

“Profit... is the same as surplus value.... Surplus value and profit are actually the same thing and numerically equal”.

(K. Marx: *ibid.*; Volume 3; p. 36, 48).

But using the term “profit” in the **narrower and more scientific** sense of **the surplus income retained by the capitalist entrepreneur involved in production**: Marx points out that the total surplus value obtained may be classified into **various parts** according to their **distribution**, to form:

1) the **rent** received by the **landlords**;
2) the **interest** received by the **financiers**;
3) the **profit and wages** received respectively by **capitalists and workers involved in non-productive activity** such as distribution; and

4) the **profit** retained by **the entrepreneur capitalist involved in production**:

“Surplus value.. splits up into various parts. Its fragments fall to various categories of persons and take various forms, independent the one of the other, such as profit, interest, merchants’ profit, rent, etc.”

(K. Marx: *ibid.*; Volume 1; p. 529).

In a **socialist** society, such as that which formerly existed in the Soviet Union, the working people collectively own the means of production. They do **not**, therefore, produce **surplus value** which is appropriated by an exploiting class owning the means of production. In such a society, the working people **assess**, through the state planning organs which they control, the value of

“... the **total social product**”.

(K. Marx: “Critique of the Gotha Programme”, in: “Selected Works”, Volume 2; London; 1943; p. 561).

and, through these same organs, decide on the **social deductions** they wish to make from it. These social deductions comprise:

“...cover for replacement of the means of production used up; additional portion for expansion of production; reserve or insurance fund to provide against misadventures, disturbances through natural events, etc.;.. the general costs of administration not belonging to production; **that which is destined for the communal satisfaction of needs, such as schools, health services, etc.; funds for those unable to work, etc.**”.

(K. Marx: *ibid.*; p. 562).

The **balance** of the total social product remaining after these social deductions constitutes the **wage fund**, representing that part of the total social product which the working people receive **directly and individually**.

The **social deductions**, on the other hand, represent that part of the total social product which the working people receive socially:

“What the producer is deprived of in his capacity as a private individual benefits him directly or indirectly in his capacity as a member of society”.

(K. Marx: *ibid.*; p. 562).

In a **capitalist** society, as has been shown in the section entitled “The Value of Labour Power”, the **wage fund** is equal to the **total monetary value of the subsistence of the working class** at the level of civilisation pertaining in the society concerned.

In **contemporary Soviet society**, as has been shown in the section entitled “The Value of Labour Power”, the **wage fund** is equal to the **total monetary value of the subsistence of the working class** at the level of civilisation pertaining in society. Furthermore, as has been shown in the section entitled “**Ownership of the Means of Production**”, the principal means of production are **no longer** owned collectively by the working people, but are **effectively owned by a new class of Soviet capitalists**, to whom, as has been shown in the section entitled “The Sale of Labour Power”, the workers are compelled to sell their labour power.

Clearly, therefore, the surplus product produced by the working people in contemporary Soviet society is, in Marxist-Leninist terminology, **surplus value** or, in the broad and loose sense, **profit**. The latter, in fact, is admitted by some contemporary Soviet economists:

“Profits are the monetary form of the surplus product, that is, the product which working people produce over and above their personal needs”.

(E.G. Liberman: *ibid.*; p. 304).

“The value of the product of surplus labour.... is expressed in profit”.

(E.G. Liberman: “Profitability of Socialist Enterprises”, in: “*Ekonomicheskaya gazeta*” (Economic Gazette), No. 51, 1965, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 237).

“Profit under socialism is a form of surplus product”.

(Editorial: “Economic Policy and Work for Communism”, in: “*Pravda*” (Truth), January 14th., 1966, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 11).

However, wishing to present contemporary Soviet society as “socialist” and aware that Marx held that in capitalist society the surplus product took the form of surplus value, these economists are at pains to deny that the surplus product in the contemporary Soviet Union constitutes surplus value:

“Under capitalism the surplus product appears as surplus value”.

(D.A. Allakhverdyan: “National Income and Income Distribution in the USSR”, in: “The Soviet Planned Economy”; Moscow; 1974; p. 92).

“Under socialism the value of the surplus product in its socio-economic character does not constitute surplus value because it does not express relations of exploitation”.

(B. Rakitsky: “Bourgeois Interpretation of the Soviet Economic Reform”, in: “*Voprosy ekonomiki*” (Problems of Economics). No. 10, 1965, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 134).

But, in fact, the definition given by contemporary soviet economists of “profit” in the Soviet Union since the “economic reform”:

“Profit is formed directly from the difference between the price and cost of production”,

(L. Gatovsky: “The Role of Profit in a Socialist Economy”, in: “Kommunist” (Communist), No. 18, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 98)

– is **virtually identical** with that given by Marx for **surplus value** (i.e., for profit in the **broad** sense) **in an orthodox capitalist society:**

“Surplus value is the difference between the value of the product and the value of the elements consumed in the formation of that product”.

(K. Marx: “Capital”, Volume 1; London; 1974; p. 201).

“Surplus value is the excess value of a commodity over and above its cost price”.

(K. Marx: *ibid.*, Volume 3; p. 34).

Tacitly accepting that “socialist profit” does **not** differ from profit in orthodox capitalist countries **in its economic content**, contemporary Soviet economists fall back on the argument that there is **nothing wrong** with profit in orthodox capitalist countries **in its economic content**; what is wrong – and what distinguishes it from “socialist profit” – is, they say, its **distribution**:

“Under socialism profit.. is distributed in the interest of the people”.

(L. Gatovsky: *ibid.*; p. 91).

“The evil of capitalism lies not in the drive for profit, but in its distribution”.

(V. Belkin & I. Berman: “The Independence of the Enterprise and Economic Stimuli”, in: “Izvestia” (News), December 4th, 1964, in: Me. Sharpe (Ed.): op. cit., Volume 1; p. 227).

“In our country... all the profit goes for the benefit of society”.

(E.G. Liberman: *ibid.*; p. 237)

“Capitalist profit is... a form of capitalist exploitation....

In contrast to this, profit under socialism... accrues to the working people”.

(Editorial: “Economic Policy and Work for Communism”, in: “Pravda” (Truth), January 14th., 1966, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 11).

“Under socialism, the surplus product belongs to those who create it – to the working people, and it is utilised in their interest”.

This argument will be examined in the next two sections.

18: The Distribution of “Socialist Profit”

The establishment of profit as the motive and regulator of Soviet social production required, as has been said, that the proportion of an enterprise's profit should be significantly increased and that this retained profit should be used to provide economic incentives, dependent on the size of the profit made, to the personnel of the enterprise responsible for making it.

Under the “economic reform”, therefore, every enterprise was required to set up a “material incentive fund” to provide “bonuses” for such personnel.

“There are now three types of material incentive funds at the Soviet enterprises: a) a material incentive fund designated for bonuses to the personnel for results achieved, an annual bonus for the overall results of an enterprise's operations and for rendering assistance in case of need”.

(V.M. Batyrev: “Commodity-Money Relations under Socialism”, in: “The Soviet Planned Economy”; Moscow; 1974; p. 172)

This material incentive fund out of which “bonuses” are paid is drawn from the profits retained by the enterprise:

“A fund for the material stimulation of the personnel will be set up at each enterprise from the profits obtained by the enterprise”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning, and Enhancing Economic Incentives in Industrial Production”, in: “Izvestia” (News), September 28th., 1965, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 26).

and its size, and the size of the “bonuses” drawn from it, depend on the rate of profit made by an enterprise:

“The larger the profits, the larger the bonus fund.”
(E.G. Liberman: “Cost Accounting and Material Encouragement of Industrial Personnel”, in: “Voprosy ekonomiki” (Problems of Economics), No.

6, 1955, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 13).

“The greater the profitability... the greater will be the bonus...

It is proposed to establish a single fund for all types of material incentive and to make it dependent upon profit (in percent of the production assets)”.

(E.G. Liberman: “Plan: Profits: Bonuses”, in: “Pravda” (Truth), September 9th., 1962, in; M.E. Sharpe (Ed.): op. cit., Volume 1; p. 80, 86).

“It is advisable to gradually extend the practice of using profit as a source of funds for material stimulation and as an index for the payment of bonuses”.

(L. Gatovsky: “The Role of Profit in a Socialist Economy”, in: “Kommunist” (Communist), No. 18, 1962, in: M.E. Sharpe (Ed.): op. cit., Volume 1; p. 104).

“Economic stimuli.. already exist in the form of bonuses. Therefore, bonuses and other incentives should be strictly dependent on the size of the profit derived”.

(V. Belkin & I. Berman: “The Independence of the Enterprise and Economic Stimuli”, in: “Izvestia” (News), December 4th., 1964, in; M.E. Sharpe (Ed.): op. cit., Volume 1; p. 227).

“The achievements of the enterprise in increasing profits and the profitability of production do not have any direct effect on the earnings of the staff of the enterprise. It is necessary to change this system in order to.. introduce a system under which the enterprise’s opportunities for increasing the remuneration of its workers and employees would be determined, above all, by... increased profits and greater profitability of production”.

(A.N. Kosygin: *ibid.*; p. 25-6).

But, if profit is in reality the motive and regulator of Soviet social production, the lion's share of these "bonuses" must go **to those personnel of an enterprise whose economic decisions primarily determine the rate of profit made by the enterprise – that is, to the personnel of the management:**

"Every enterprise must form... an aggregate single bonus fund... The enterprises must pay monthly bonuses to its managerial personnel out of this fund"

(E.G. Liberman: "Cost Accounting and Material Encouragement of Industrial Personnel", in: "Voprosy ekonomiki" (Problems of Economics), No. 6, 1955, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 1; p. 17).

"We must raise the role and responsibility of the heads of enterprises... for the fulfilment of profit plans."

(G. Kosiachenko: "Important Condition for Improvement of Planning", in: "Voprosy ekonomiki" (Problems of Economics), No. 11, 1962, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 1; p. 157).

The size of the bonuses paid to **managerial** personnel is determined outside the enterprise, by the **state**:

"Bonuses to directors of enterprises, their assistants, chief engineers, heads of planning departments, chief bookkeepers and heads of technical control departments are approved by the chief executive of the higher agency".

(Y.L. Manevich: "Wages Systems", in: "The Soviet Planned Economy"; Moscow, 1974; p. 253).

the prime criterion for determining the size of the "bonuses" to managerial personnel being the **rate of profit** made by the enterprise:

"The fulfilment of profit plans...should be one of the criteria for granting bonuses to certain catego-

ries of managerial personnel”.
(G. Kosiachenko: *ibid.*: p. 157)

“The main indicators for awarding bonuses to managerial workers at enterprises are fulfilment of the plan for sales and an increase in profitability”.
(S. Kamenitser: “The Experience of Industrial Management in the Soviet Union”; Moscow; 1973; p. 134).

The size of the “bonuses” paid to the workers of an enterprise is determined officially by the **director** – in practice, by the **foremen**:

“Bonuses to directors of enterprises, their assistants, chief engineers, heads of planing departments, chief bookkeepers and heads of technical control departments are approved by the chief executive of the higher agency, and those given to all other employees by the director of the enterprise”.
(Y.L. Manevich: *ibid.*; p. 253).

“The united incentive fund of the enterprise.. should be large enough to handle all forms of material incentive for the workers (through the foreman’s fund).”
(E.G. Liberman: “Economic Levers for Fulfilling the Plan for Soviet Industry”, in: “Kommunist” (Communist), No. 1, 1959, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 1; p. 54).

In contrast to the monthly “bonuses” paid to the **managerial** personnel, a significant part of those paid to **workers** (on average, 8.7%) constitutes **social welfare payments to “workers in need”**.
(N.Y. Drogichinsky: “The Economic Reform in Action”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 194).

“Part of it (i.e., the material incentives fund – WBB) is earmarked... for giving material assistance to workers in need”.
(S. Kamenitser: *ibid.*; p. 127).

The **largest part** of the “bonuses” received by the **workers** out of the material incentive fund (on the average, 59.1%) is paid out – if, of course, the enterprise has achieved its planned rate of profit – **at the end of the financial year.** (N.Y. Drogichinsky: *ibid.*; p. 194).

“Part of it (i.e., the material incentive fund – WBB)... is held back for paying wages for the ‘thirteenth’ month, if the enterprise’s yearly results are good”.

(S. Kamenitser: *ibid.*; p. 127).

The amount of “bonus” received by individual workers in a particular enterprise **varies**, extra premiums being paid to long-service workers in proportion to their estimated contribution to increasing the productivity of labour:

“Besides the bonuses, premiums will be paid to enterprise workers for the annual results of work; the size of this premium will depend on the length of service of the workers at a given enterprise. The rewarding of workers for continuous service will depend on their labour contribution to the development of production. This will produce a greater effect than the restoration of the former system of long-service premiums”.

(A. Volkov: “A Mighty Stimulus for The Development of Production”, in “Pravda” (Truth), November 14th., 1965, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 169).

Of even greater social significance, however, is the **difference** in the size of the “bonuses” received by management **personnel** and those received by the **workers** of an enterprise.

In 1970 the personnel engaged in industry was classified as follows:

Management personnel: 4%

Workers: 96%

(Z. Katz: “Patterns of Social Stratification in the USSR”; Cambridge (USA); 1972; p. 78).

Statistics for the distribution of the material incentive fund for industrial enterprises operating under the “reformed” system show

that in 1966 management personnel received 49.3% of the fund in “bonuses”, while workers received 50.7%. (N.Y. Drogichinsky: *ibid.*; p. 194).

It follows that 1% of the personnel received 12.3% of the “bonuses” paid out of the material incentive fund if they were in management, and 0.5% if they were workers. Thus, on average each member of the management received almost twenty-five times the bonus received by each worker.

However, the material incentive fund is not the only source of the “bonuses” paid by an enterprise. In a majority of enterprises these constitute only a minority of the “bonuses” paid out:

“At the majority of enterprises the material incentive fund has not yet become the basic source of bonuses for personnel, since there are more than 30 bonus schemes in operation simultaneously. Frequently the so-called special bonuses are considerably higher than the total bonuses that personnel receive... from the material incentive fund”. (E. Manevich: “Ways of Improving the Utilisation of Manpower”, in: “Voprosy ekonomiki” (Problems of Economics), No. 12, 1973, in: “Problems of Economics”, Volume 17, No. 2; June 1974; p. 13).

“In a majority of enterprises there exists a multifarious network of specialised premiums... from which premiums higher than those from the MIF are often derived”.

(F. Levtrinsky & G. Mantsurov: “*Ekonomika Sovetskoy Ukrainy*” (The Economy of Soviet Ukraine), No. 5, 1968; p. 47; in: G.R. Feiwel: “The Soviet Quest for Economic Efficiency”; New York; 1972; p. 387).

As has been shown, contemporary Soviet economists seek to distinguish “socialist profit” from profit in orthodox capitalist countries by the fact that the former

“... accrues to the working people”

(Editorial “Economic Policy and Work for Com-

munism”, in; “Pravda” (Truth), January 14th., 1966, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 11).

This “differentiation” is attained by the device of classifying the **management personnel** in Soviet industry – the Soviet **capitalists** who obtain the lion’s share of this “socialist profit” – as **“working people”**. This is a device of which contemporary Soviet sociologists are scathing when it is applied to orthodox capitalist countries:

“Most writers on ‘human relations’ are unwilling to admit the class division in American society. They divide all people connected with production into groups according to the functions they perform, for example, those dealing with finance, administration, etc., regardless of their class background. Roethlisberger and Dickson, for instance, maintain that ‘the personnel could not be divided into an employer and an employee class’, every person in the company from top to bottom was an employee’... “

(F. Roethlisberger & W. Dickson: ‘Management and the Worker’; Cambridge (USA); 1946; p. 542).

“Managers are playing an increasingly prominent role in the system of social production and their position is very different from that of other hired workers in corporations. Meanwhile, the brains behind the ‘human relations’ approach attempt to equate managers with ordinary employees on the purely formal basis that they, like the others, are employed and paid a wage.

Advocates of the ‘human relations’ doctrine pass over in silence the fact that executives, unlike other employees, reap a sizeable share of the monopoly profits in the form of enormous salaries and bonuses”.

(N. Bogomolova: “‘Human Relations’ Doctrine: Ideological Weapon of the Monopolies”; Moscow; 1973; p. 54, 55).

In fact, the distribution of socialist profit” in the contemporary Soviet economy **differs in no way** from the distribution of profit in orthodox capitalist countries **where “profit sharing” schemes are in force:**

“In order to consolidate by material means the illusion created with the help of various psychological devices to the effect that there exists as ‘social partnership’ between workers and capitalists, many American corporations practice so-called ‘workers sharing in profits’... In the 1960’s a total of two million workers were in all forms of ‘profit-sharing’ in the United States...

‘Profit-sharing’ by no means guarantees workers material advantages. Whatever guise it may take this technique is essentially a form of indirect wage, which serves to increase the worker’s dependence on his employer. The worker does not know in advance how much he will receive. Furthermore the size of the supplement the workers are to receive is made dependent on the state of the market, which means that workers are deprived of such supplements at the very time when they need them most.

‘Profit-sharing’ is regarded by some companies as ‘a basic means of preserving the capitalist system and combating the doctrines of communism’. Accompanied as it is by concentrated ‘brain-washing’ of the workers, it represents a threat to the labour movement in so far as it undermines class solidarity of the workers and impedes their organised struggle for higher wages, unified national rates and weakens their class consciousness”.

(N. Bogomolova; *ibid.*; p. 96, 99).

The increasing differentiation in income level between different “strata” of the population is admitted by contemporary Soviet sociologists:

“Up until recently, the living standard was planned

for two basic groups: for workers, employees and collective farmers. Today it is also necessary to calculate the rise in the standard of living for population groups with different income levels”.

(P. Krylov & M. Chistiakov: “Problems in Improving the Methods of National Economic Planning”, in: “Planovoe khoziaistvo” (Planned Economy), No. 1, 1972, in: “Problems of Economics”, Volume 15, No. 4; August 1972; p. 33).

“Analysis of trends in the development of the Soviet economy indicates a gradual change in the character of the differentiation of the population with respect to income level. Inevitably there is a rise in the share of those groups that have relatively high incomes. At the same time there is a reduction in the share of families for which a comparatively low savings norm is characteristic”.

(T. Ivensen: “Problems in Forecasting the Monetary Savings of the Population”, in: “Nauchnye doklady vysshei shkoly: Ekonomicheskie nauki” (Scientific Reports of Higher Schools: Economic Science), No. 11, 1973, in: “Problems of Economics”, Volume 17, No. 2, June 1974; p. 66-7).

Some of the more daring Soviet sociologists even admit that only families “with a maximum per capita income” are able to obtain food and other commodities at a “rational level”, and timidly ask if it might be “permissible” to discuss the “irrational consumption” of the upper “strata” of the population:

“At the present time, families with maximum per capita income are consuming certain types of food and non-food commodities at a level recommended by rational norms, or at an even higher level. There is no doubt that with a further rise in incomes, the consumption of such families will grow quantitatively and qualitatively in the next 15 years, and with respect to the number of goods and services will significantly exceed the rational norms. In such a case can there be a discussion of ‘irrational

consumption’?

(N. Buzliakov: “Rational Long-range Income and Consumption Norms”, in: “Planovoe khoziaistvo” (Planned Economy). No. 6, 1974, in; “Problems of Economics”, Volume 17, No. 7; November 1974; p. 84).

19: “Divide and Rule”

An important aspect of the material incentives system introduced under the “economic reform” is its utilisation to play off one worker, and one group of workers, against another. In fact, contemporary Soviet economists admit that the decisive factor in the “efficiency” of the system is not the size of the bonuses paid, but the differentiation in their size between individual workers, which enables the management to play off one worker against another:

“The efficiency of any system of incentives largely depends on differentiation between the workers encouraged. Therefore, the decisive factor is not the absolute size of incentive funds but the relative size per worker”.

(B. Gubin: “Raising the Efficiency of Socialist Economic Management”; Moscow; 1973; p. 79).

But this differentiation applies not only to bonus payments, but to wage-rates, which, at the discretion of management, are varied not only between different regions of the country, but between different departments of the same enterprise and – in blatant contradiction of the principle of equal pay for equal work – between male and female workers:

“The recent economic reform... enables industrial managers to differentiate labour remuneration rates according to the specific conditions of each individual shop, section or other production unit”.

(P. Tabalov: “Switching Over to the New System”, in: “Pravda” (Truth), October 27th., 1965, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 119).

“Differentiating the rate of pay for labour by regions and types of labour (male, female and so on), it will be possible to influence in a planned manner the structure of utilising labour resources”.

(A.G. Aganbegyan: “Territorial Planning and the Economic Reform”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 99).

20: Anti-Semitism

A particularly unpleasant feature of “divide and rule” discussed in the previous section is the official encouragement of **racist prejudices** – manifested in particular, in Soviet conditions, by a revival of that scourge of tsarist Russia, **anti-Semitism**.

In the days when Soviet society was socialist in character, the official position on anti-Semitism was one of outright **denunciation and illegality**:

“anti-Semitism, as an extreme form of racial chauvinism, is the most dangerous vestige of cannibalism.

Anti-Semitism is of advantage to the exploiters as a lightening conductor that deflects the blows aimed by the working people at capitalism. Anti-Semitism is dangerous for the working people as being a false path that leads them off the right road and lands them in the jungle. Hence Communists, as consistent internationalists, cannot but be irreconcilable, sworn enemies of anti-Semitism.

In the USSR anti-Semitism is punishable with the utmost severity of the law as a phenomenon deeply hostile to the Soviet system”.

(J.V. Stalin: “Anti-Semitism”, in: “Works”, Volume 13; Moscow; 1955; p. 30).

In line with Stalin’s statement above that anti-Semitism is of advantage to exploiters, with the revival of an exploiting class in the Soviet Union has come **a revival of anti-Semitism** – both official and unofficial:

“Official and unofficial anti-Semitism... is widespread in the Soviet Union...

This anti-Semitism, which is created by the Party bosses.... finds fertile ground among people who are looking for a scapegoat on which to vent their frustrations with the regime.

The State and the Party use anti-Semitism as a safety-valve. The regime still encourages and old saying from Czarist times, ‘Save Russia, boot the

Yids'. Even in the camp where there were water shortages, anti-Semitic prisoners would come out with an old song about the stinking Jews drinking it all.

Every year anti-Semitism in the Soviet Union gets worse. The children of Jews are no longer admitted to higher institutions of learning – or if they are, it's through bribery and corruption.” (M. Shtern: “Jew in Gulag: Shtern’s story”, in: “The Observer”, April 24th., 1977; p. 10).

“The camp authorities inculcate nationalistic conflicts and agitate other inmates against the Jews. KGB Captains Maruzan and Ivkin stress in their conversation with non-Jewish inmates that all nationalities of the USSR must take a stand against Jews, particularly in labour camps. The administration provokes anti-Jewish incidents, utilizes informers and spies, and uses false witnesses in order to be able to impose additional punishment upon the Jews. Inmates who have had contact with Jews are summoned for discussions during which anti-Semitic sentiments are expressed and they are told that protest against arbitrariness in camp rules are profitable to the Zionists”.

(“A Perm Camp”, in: Amnesty International: “Prisoners of Conscience in the USSR: Their Treatment and Conditions”, London; 1975; p. 80).

“Audiences in Russia are currently being shown a specially made film which is deliberately and wildly anti-Semitic. The film is called ‘Things Secret and Things Obvious’ and it is a vicious attack on Jews. It is a compilation of newsreel film and reconstructed scenes, and it attacks Jews from the 1917 revolution to the present day. Accompanying the pictures is a particularly nasty commentary saying such contentious and unpleasant things as: “Jewish capitalists assisted Hitler a great deal in coming to power”. It also makes great play of the

fact that it was a Jewess, Fanny Kaplan, who once tried to kill Lenin...

The film... has been produced by the Moscow Central Studio of Documentary films”.

(“The Guardian”, March 29th, 1977; p. 11).

21: Corporatism

According to Marxism-Leninism, **corporatism** exists in capitalist society when independent trade unions representing the economic interests of the working class have been replaced by **“corporations”** of which both capitalist managements and employed workers are members.

In Nazi Germany the **Labour Front** was a classic “corporation”. It included

“... the members of all the previous trade unions, the previous salaried workers’ associations and the previous employers’ associations”.

(R.A. Brady: “The Spirit and Structure of German Fascism”; London; 1937; p. 125).

In the words of the Leader of the Labour Front, **Robert Ley**:

“The management of the Labour Front is in the hands of the National Socialist German Labour Party”.

(R. Ley: Address to the Foreign Press, March 7th., 1935, in: R.A. Brady: *ibid.*; p. 124).

The result of Nazi corporatism was:

“Employers have practically complete control over workmen in regard to wages, hours and working conditions...Collective bargaining is completely abolished”.

(R.A. Brady: *ibid.*; p. 41).

Since the Soviet management personnel now form a new capitalist class and are members of the **same “trade unions” as the workers they employ** (and may dismiss), these Soviet “trade un-

ions” are, in fact, “corporations” similar in every respect to the Nazi Labour Front – except that they are led by a political party which calls itself the Communist party instead of the National Socialist Labour Party.

Like the Labour Front, too, the Soviet “trade unions” do not participate in collective bargaining on such important questions as wage levels, since – as has been demonstrated in Section 12: “The Price of Labour Power” – these are determined by the state.

As in the later days of the fascist regime in Spain, Soviet workers are responding to Soviet “corporatism” by setting up **independent trade unions** to defend and improve their conditions of work:

“Soviet workers have been forcibly confined to mental hospitals for nothing more or less than exercising some of the most fundamental rights of working people anywhere. The astounding accounts of fourteen workers, hospitalised since January 1977 for displaying such ‘symptoms’ as appealing against unfair dismissal, complaining about poor working conditions and helping to form a free trade union, reached Amnesty International in March...

With the news of the imprisoned workers came an appeal to Amnesty from the Association of Free Trade Unions of Workers in the Soviet Union, already more than 200 strong, to forward their application to the International Labour Organisation (ILO) in Geneva to be given ILO recognition”.

(“USSR Jails Trade Unionists”, in: “British Amnesty”, No. 25; April 1978; p. 1).

This represents **a political development of great significance.** In the years following the Brezhnev “economic reform” the majority of “dissidents” – at least of those who have managed to communicate to the world outside the Soviet Union – have been intellectuals who have, in most cases, criticised the contemporary Soviet regime from the right. Now, as Amnesty International points out:

“The addition on the Soviet human rights map of a substantial area of protest from ... workers, then, is

one of signal importance”.
(ibid.; p. 1).

On the workers’ struggle for freedom of trade unionism, official Soviet publications are – at least as yet – silent. But a fair idea of the difficulties and struggles which face Soviet workers may be gained from those which face French workers employed by a Soviet “subsidiary” in Besancon:

“Employees of Slava – one of the many faces of the multi-tentacled Russian Mashpriborintorg conglomerate – are forcing the company to accept ... a 40-hour week, a £250 a month minimum wage, five weeks’ holiday and an extra month bonus pay...

A strike last year reduced the working hours. And for the past week workers have been picketing the factory to force the ten Soviet bosses to come to the negotiating table. True to board room form the bosses are refusing to comment, but the strikers sense victory because the managing director has just made a secret trip to Moscow, presumably to discuss the effects of the dispute on the dividend”. (“Striking Out”, in: “The Guardian”, April 27th., 1978; p. 15).

22: The Social Services

According to Marxism-Leninism, a certain level of social services (for example, in the fields of education and health) is necessary for the effective operation of a modern capitalist society. Unhealthy workers, without a minimum of education, are incapable of maximising the creation of profit.

Expenditure by the Soviet state on education, the health service, sickness benefits, children's allowances, pensions, recreational and holiday facilities, housing construction, vocational training etc., are drawn from what is termed social consumption funds. These funds account for some 17-20% of the income of the average working class family. (Y.L. Manevich: "Wages Systems", in: "The Soviet Planned Economy"; Moscow; 1974; p. 259).

Some 60% of Soviet state expenditure in connection with social services takes the form of monetary benefits, some 40% that of services. (Y.L. Manevich: *ibid.*; p. 263).

The aim of a capitalist class, however, is to keep the level of social services at the minimum level consistent with maximum profitability and social stability of the social system and to make a higher level of services available only on a payment (and profit making) basis.

The Soviet capitalist class pursues both these aims.

The growth rate of payments from social consumption funds has fallen consistently since the "economic reform", as follows:

1966-70: 53%

1871-75: 40%

1976-80 ("planned"): 26-30%

("Soviet Economy Forges Ahead"; Moscow; 1973; p. 70).

(A.N. Kosygin: "Guidelines for the Development of the National Economy of the USSR for 1976-80", 25th. Congress CPSU; Moscow; 1976; p. 25).

The development of educational and health services that operate on a payment and profit-making basis has been a feature of the Soviet social system since the "economic reform":

"A certain percentage of services (health, education) is offered for prices that contain a profit: cer-

tain health and educational institutes that operate on a cost-accounting basis”.

(V. Azar & I. Pletnikova: “On the Question of the Classification and Full Assessment of Services in Personal Consumption”, in: “Nauchnye doklady vysshei shkoly: Ekonomicheskie nauki” (Scientific Reports of Higher Schools: Economic Science). No. 11, 1973, in: “Problems of Economics”, Volume 17, No. 2; June 1974; p. 55).

and it is planned that these paid services shall expand at a **faster** rate than the unpaid:

“The current five-year plan calls for the relatively more rapid growth of paid services...

The volume of paid services will grow by 47% during the five year plan.. The volume of unpaid services will increase by 32% during the five year period”.

(V. Komarov: “The Service Sector and its Structure”, in: “Voprosy ekonomiki” (Problems of Economics), No. 2, 1973, in: “Problems of Economics”, Volume 16, No. 3; p. 8, 9).

This latter development is presented by contemporary Soviet propagandists as “in the interests of the population” on the grounds that the standard of the paid services is **higher** than that of those which are unpaid:

“The preferential development of branches of paid services in the present stage conforms to the interests of the population... The population receives the possibility of supplying its needs more completely”.

(V. Komarov: *ibid.*; p. 9).

In fact, this development is in the interests, **not** of the Soviet working people but of **the Soviet capitalist class**. In the first place, it enables the latter to reduce the proportion of national income which would otherwise have to be spent on unpaid social services; in the second place, it opens to Soviet capital a “highly profitable” sphere of operations:

“As a rule, all basic branches of paid services.... are highly profitable”.
(V. Komarov: *ibid.*; p. 9).

Some of the more humanitarian of the contemporary Soviet economists have, however, been frank enough to demand that this replacement of unpaid by paid services should not be carried “too far” because of **its undesirable social effects:**

“The reduction of the sphere of free services and the satisfaction of the expanding range of the needs of the people in paid form are possible only up to a certain limit, beyond which the undesirable differentiation of the enjoyment of services by individual groups of the population with a different level of per capita income in the family may take place”.
(V. Rutgaiser: “A Comprehensive Plan for the Development of the Service Sector”, in: “Planovoe khoziaistvo” (Planned Economy), No. 2, 1973, in: “Problems of Economics”, Volume 16, No. 5; September 1975; p. 49).

Other economists, however, are drawing attention to **Marx’s** statement that the value of labour power includes the cost of its education:

“In order to modify the human organism so that it may acquire skill and handiness in a given branch of industry,.. a special education or training is requisite, and this, on its part, costs an equivalent in commodities of a greater or lesser amount... The expenses of this education (excessively small in the case of ordinary labour power) enter to that extent into the total value spent in its production”.
(K. Marx: “Capital”, Volume 1; London; 1974; p. 168-9).

While denying, in other connections, that labour power is a commodity – and so has a value – in the contemporary Soviet Union, these economists do not scruple to use Marx’s analysis above to support the demand that **no education should be free,** but should be paid for, at least in part, by students of parents:

“Educational expenditure takes the form of a portion of the outlays required for the reproduction of the labour force...

The first and most widespread assumption is that all expenditure for education should necessarily come out of the surplus product. But this is not true...

In the expenditures for education, it is necessary to discriminate between those made by the government and those made by parents or the pupil himself”.

(V. Zhamin: “Economics and Education”, in: “Voprosy ekonomiki” (Problems of Economics), No. 2, 1967, in: “Problems of Economics”, Volume 10, No. 5; September 1967; p. 48, 49-50).

An exception to this general movement from subsidised state social services towards “economic” profit-making services is to be found in the sphere of **housing**. This was partly because – as in orthodox capitalist countries – it became increasingly difficult for profit-making building enterprises to construct dwellings at economic rents (or mortgage repayments) which working people could afford to pay. But it was also partly because, by 1960, in the larger towns, where there was a sizable petty bourgeoisie, a shortage of building land had arisen as a result of extensive private building of single – and two-storied houses.

Accordingly, on June 1st., 1962 a **joint resolution** of the **Central Committee of the CPSU** and the **Government** instructed republic administrations to **prohibit** the building of private houses in towns with a population of more than 100,000.

At the same time citizens in need of a home were encouraged to invest in **housing co-operatives** which, with the aid of state credits, would build **multi-storey blocks of flats** in such large towns. Those who could afford a down-payment of 40% (1,000 to 3,000 rubles, depending on the type of accommodation) would in this way have the possibility of moving into a new flat within a few years of joining the co-operative, without having to wait their turn on the state housing list.

These measures brought about a **relative increase** in the proportion of dwellings being built by the **state** and by **housing co-**

operatives, and a relative decrease in the proportion being built privately:

Proportion of Housing Space Built	1961-65	1966-70
By the state	58.5%	61.5%
By housing cooperatives	2.7%	6.5%
Privately	19.2%	14.0%
By collective farms & collective farmers	19.6%	18.0%

(“Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970); Moscow; 1971; in: H.W. Morton & R.L. Tokes: “Soviet Politics and Society in the 1970’s”; New York; 1974; p. 181).

For urban housing this trend was considerably more marked:

Proportion of housing space built	1960	1965	1970
By the state	75.6%	76.1%	79.9%
By housing co-operatives		10.7%	10.8%
Privately	24.4%	13.2%	9.3%

(Ibid.; p. 182).

State housing is, to date, a true social service in the contemporary Soviet Union, being subsidised by the state as to two-thirds of its construction and operating costs, with rents fixed at a nominal 3-4% of the income of the occupying families.

(“Soviet Economy Forges Ahead”; Moscow; 1973; p. 207).

(P.S. Mstislavsky: “The Standard of Living”, in: “The Soviet Planned Economy”; Moscow; 1974; p. 269).

Nevertheless, in line with other social services, the proportion of total capital investment devoted to housing has declined significantly in recent years:

1956-60: 23.2%

1961-65: 18.3%

1966-70: 17.0%

(“Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970)); Moscow; 1971; in: H.W. Morton: op. cit.,

p. 168).

and the **standard** of state housing is admittedly low:

“Newlyweds can initially get along very well without certain types of utilities... Not until they have children do they need separate apartments with all the conveniences”.

(E.G. Antosenkov: “The Availability of Housing and Personnel Turnover”, in: “Izvestia sibirskogo otdeleniya Akademii Nauk SSSR: Seriya obshchestvennykh nauk” (Journal of the Siberian Section of the Academy of Sciences of the USSR; Social Science Series). No. 11, 1972, in: “Problems of Economics”, Volume 16, No. 3; July 1973; p. 59)

Not all social services, however, are provided **by the state**. Some are provided **by enterprises specifically for their own personnel**.

Since the “economic reform”, every enterprise is required to set up out of its profits, in addition to a production development fund and an economic incentives fund, **a fund for social and cultural undertakings and housing**:

“There are now three types of material incentive funds at the Soviet enterprises:.... b) a fund for social and cultural measures and housing from which an enterprise can make the necessary expenses for providing services for its personnel, in addition to those provided by the state”.

(V.M. Batyrev: “Commodity-Money Relations under Socialism”, in: “The Soviet Planned Economy”; Moscow; 1974; p. 172).

Out of this fund the enterprise is **obliged** to provide on its premises a **health centre** and a **canteen** for its personnel. (Statute on the Socialist State Production Enterprise, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 294).

Like the other two funds, the **size** of the fund for social and cultural undertakings and housing is **dependent on the rate of profit**

made by the enterprise:

“Housing, communal and cultural facilities provided by an enterprise depend on the profitability of production, since expenditure on these items is made from the fund for social and cultural measures and housing, which is financed from deductions from enterprise profits”.

(S. Kamenitser: “The Experience of Industrial Management in the Soviet Union”; Moscow; 1975; p. 134).

It thus functions as **a secondary economic incentives fund**, stimulating the personnel to maximise the rate of profit.

At the same time, the fund is designed to assist the enterprise in competing for manpower and retaining it, by providing amenities such as housing to its employees that might not otherwise be available. This applies also when the fund is used to assist employees to purchase houses privately:

“The enterprise helps these workers under the following terms: the funds for socio-cultural resources and housing construction advance 40-50% of the down payment to the worker, and this sum is cancelled after the worker has worked a certain length of time at a given enterprise”.

(E.G. Antosenkov: *ibid.*; p. 68-9).

The social welfare schemes of Soviet industrial enterprises are thus little different from those operating in orthodox capitalist countries, about which contemporary Soviet sociologists comment scathingly:

“Welfare and cultural schemes the management of industrial corporations.. introduce for their employees are prompted by egoistic class interests... The corporations’ expenditure on welfare schemes.. is seen to ‘produce the greatest material and ideological returns to the corporation’”.

(W.G. Scott: “Human Relations’ in Management”, Homewood (USA); 1962; p. 368).

(N. Bogomolova: “Human Relations’ Doctrine:

Ideological Weapon of the Monopolies”; Moscow; 1973; p. 107).

In the Soviet Union, however, the funds for social and cultural undertakings have grown **much more slowly** than the other two funds:

“Between 1966 and 1970... the production development fund rose 6 times, the fund for socio-cultural measures and housing construction 2 times, and the material incentive fund 4 times”.

(N.Y. Drogichinsky: “The Economic Reform in Action”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 207).

and considerably more slowly than the growth of profits:

“At the same time that the profits of enterprises and organisations increased 3.5 fold during the last decade, their allocations for social and economic services increased only 2.8 fold....

These figures alone are evidence of the great reserves that exist for the development of the sphere of social and economic services”.

(B. Khomeliansky: “The Sphere of Social and Economic Services and the Reproduction of Aggregate Labour Power”, in: “Nauchnye doklady vysshei shkoly: Ekonomicheskie nauki” (Scientific Reports of Higher Schools: Economic Science), No. 4, 1972, in: “Problems of Economics”, Volume 16, No. 2; June 1973; p. 62-3).

23: Environmental Pollution

Contemporary Soviet economists and politicians hold that harmony between man and his environment is possible only under a planned socialist or communist social system:

“True harmony between man and nature is only possible under socialism and communism”.

(K. Ananichev: “Environment: International Aspects”; Moscow; 1976; p. 30).

But, since the “economic reform”, each enterprise is required to maximise its profits and minimise production costs – **an aim which frequently conflicts with the social need to minimise environmental pollution resulting from production**, as contemporary Soviet economists admit:

“The implementation of pollution control programmes leads to worsening of the cost- accounting performance of enterprises”.

(N. Fedorenko & K. Gofman: “Problems of Optimisation of the Planning and Control of the Environment”, in: “Voprosy ekonomiki” (Problems of Economics), No. 10, 1972, in: “Problems of Economics”. Volume 15, No. 12; April 1973; p. 46).

As a result, since the “economic reform” **environmental pollution in the Soviet Union has reached dangerous levels**, as in orthodox capitalist countries:

“The Zhdanvsky and Lovozersky ore-dressing combines of the USSR Ministry of Non-ferrous Metallurgy have not yet taken the necessary measures to bring a complete halt to contamination of the rivers and lakes of the Kola Peninsula... A number of enterprises belonging to the Ministry of the Chemical Industry... are polluting the air. Many cement plants are operating with a low degree of purification of exhaust gases. The construction of purification facilities at the Selenginsky and other pulp and paper enterprises is unsatisfactory. Individual enterprises of the ministries of oil refin-

ing and of the petrochemical industry, of power engineering and electrification, of the building materials industry, are also polluting the air and water. In a number of major cities the contamination of the air by automotive transport has increased...

The law calling for the re-cultivation of disturbed lands is not always observed in the prospecting and extracting of minerals and in urban, industrial and transport construction”.

(“Safeguard and Multiply Natural Wealth”, in: “Planovoe khoziaistvo” (Planned Economy), No. 6, 1973, in: “Problems of Economics”, Volume 16, No. 11; March 1974; p. 32-33).

“In the Soviet Union and other socialist countries... there are violations of technology... and as a result unpurified gases are discharged into the atmosphere, unpurified waters are discharged into rivers and water basins, there is soil erosion, etc.”.

(G. Khromushin: “Problems of Ecology”, in: “Voprosy ekonomiki” (Problems of Economics), No. 8, 1973, in: “Problems of Economics”, Volume 16, No. 11; March 1974; p. 53-54).

“For all the variety of causes behind the deterioration of the environment in the United States and the Soviet Union, both these countries are now faced with the practical need to check this process...”

The harm caused to bodies of water by effluents from pulp-and-paper, chemical fibre, and other factories is well-known. Every day they discard thousands of tons of polluted water into rivers, lakes and seas. The damage caused by these effluents is incalculable”.

(K. Ananichev: *ibid.*; p. 118, 123)

Soviet politicians certainly support, **in words**, moves to reduce environment pollution:

“As we take steps to speed up scientific and tech-

nical progress, we must see to it that it should combine with the rational treatment of natural resources and should not cause dangerous air and water pollution or exhaust the soil”.

(L. Brezhnev: Report to the 24th. Congress CPSU, in: K. Ananichev: *ibid.*; p. 24).

The practice is, however, somewhat different.

For example, Soviet environmentalists generally agree that one of the two chief causes of atmospheric pollution is motor transport:

“The development of motor transport has come up against a number of ‘dead-ends’. One of them is the air pollution with the noxious gases of internal combustion...”

The chief sources of air pollution today are the power industry and motor transport”.

(K. Ananichev: *ibid.*; p. 97, 120).

and that the difficulty in producing a non-noxious motor vehicle is economic, and not technical:

“Of course, it is possible in principle to develop a motor vehicle which does not emit poisonous or harmful exhaust fumes. This, however, would be very costly”.

(K. Ananichev: *ibid.*; p. 97).

They propose, therefore, that the number of private cars in use should be drastically reduced:

“In all probability, the number of motor vehicles will be reduced by withdrawing from use a tremendous number of private cars”.

(K. Ananichev: *ibid.*; p. 97-8).

But the car industry is such an important sector of the Soviet capitalist economy that exactly the opposite policy has, in fact, been pursued:

“In accordance with the directives of the 24th. CPSU Congress for the five-year plan for 1971-1975, there is to be a fourfold increase in car pro-

duction. This tremendous increase in the number of motor vehicles... poses the threat of large-scale air pollution”.

(K. Ananichev: *ibid.*; p. 121).

Some contemporary Soviet economists propose a “business-like” approach to the problem of environmental pollution: the state should make an

“...assessment of the loss resulting from the... higher morbidity among the population”.

(N. Fedorenko & K. Gofman: *ibid.*; p. 45).

resulting from it, and, on this basis, impose on enterprises responsible proportionate

“... payments for environmental pollution”.

(N. Fedorenko & K. Gofman: *ibid.*; p. 46).

24: “Moral Stimuli”

In addition to economic stimuli, the Soviet capitalist class makes use also of “moral stimuli” **to spur on the workers to increase productivity, production and the rate of profit:**

“Moral stimuli to labour are distinguished in that they are not directly linked with material incentives...

The Communist Party and the Soviet state have attached, and will attach, ever greater significance to the development of moral stimuli”.

(P.G. Bunich: “Methods of Planning and Stimulation”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 40, 41).

“A rational system of incentives can be developed only by combining material and moral stimuli...Under socialism, ideological and educational work becomes a major factor of economic development”.

(V.K. Fedinin: “The Economic Reform and the Development of Socialist Emulation”, in: *ibid.*; p. 241).

Contemporary Soviet sociologists hold that, in orthodox capitalist countries, such “moral stimuli” are based on fostering among the working people

“the illusion created with the help of various psychological devices to the effect that there exists a ‘social partnership’ between workers and capitalists”.

(N. Bogomolova: “‘Human Relations’ Doctrine: Ideological Weapon of the Monopolies”; Moscow; 1973; p. 96).

– the illusion, that is, that there exists no class difference, no economic conflict of interest, between workers and capitalists:

“Bourgeois sociologists... are unwilling to admit the class divisions in... society. They divide all

people connected with production into groups according to the functions they perform, for example, those dealing with finance, administration, etc., regardless of their class background,... that... every person in the company from top to bottom was an employee...

The brains behind the 'human relations' approach attempt to equate managers with ordinary employees on the purely formal basis that they, like the others, are employed and paid a wage...

The concept of 'common interests' shared by employers and workers is regarded as a factor of key importance in the theory of 'human relations'".

(N. Bogomolova: *ibid.*; p. 53-4, 55, 66).

In the contemporary Soviet Union, however, an identical illusion is fostered – here greatly facilitated by the all-pervading propaganda to the effect that the country's real social system remains "**socialist**":

"The public ownership... of the means of production established in socialist conditions has transformed production relations into relations of comradeship, friendship and unity of a collective people who benefit equally from the results of collective work....

The work of economic management is productive work, though this does not in any way mean that it is identical to work done in the immediate sphere of production. They are different spheres in which human labour is put to use...

Under socialism management relations are relations among a community of people who are equally interested in developing production".

(S. Kamenitser: "The Experience of Industrial Management in the Soviet Union"; Moscow; 1975; p. 20, 21).

The leading Soviet politicians are skilled in the demagogic art of building a capitalist society beneath red flags and under slogans

of “following the Leninist path to communism”:

“Guided by the Marxist-Leninist teaching,... our Communist Party is confidently laying the road to communism”.

(A.N. Kosygin: “Guidelines for the Development of the National Economy of the USSR for 1976-80”, 25th. Congress CPSU; Moscow; 1976; p. 80).

The workers are encouraged to see themselves as “**masters of production**”:

“Everything possible must be done to give all personnel the feeling that they are masters with respect to production”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives in Industrial Production”, in “Izvestia” (News), September 28th., 1965, in: M.E. Sharpe (Ed.), “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 42).

so that they should be interested in increasing productivity of labour and so the rate of profit:

“It is characteristic of socialism that the workers are interested in the labour process, in their machines, in the factory”.

(V.K. Fedinin: *ibid.*; p. 230).

On this ideological basis, workers are then encouraged to engage in **competition** – called facetiously “**socialist emulation**” – with respect to productivity of labour. Such competition maybe between individual workers, work teams or departments within the same enterprise, or it may be between different enterprises:

“Socialist emulation is a powerful instrument for stimulating the labour initiative of the masses, for enlisting them in productive activity...

An individual or a collective (i.e., the personnel of an enterprise – WBB) engages in emulation with other individuals or collectives...

The essence of stimulation is displayed in the

feeling of contest...

The spirit of contest, the desire to vie in skill, dexterity and resourcefulness, can best of all be fostered at an enterprise, within a collective.

The economic reform and the introduction of the sectoral principle of managing industry have created favourable conditions for concrete emulation between enterprises in the same sector”.

(V.K. Fedinin: *ibid.*; p. 229, 241, 242, 244).

Workers, work teams, departments or enterprises which excel in “socialist emulation” receive **decorations**:

“The best workers.. are awarded Orders, medals and other marks of distinction. The most outstanding are awarded the title of Hero of Socialist Labour. The foremost enterprises are presented with Red Banners”

(S. Kamenitser: *ibid.*; p. 15).

An essential aim of “socialist emulation” is stated by Prime Minister **Aleksei Kosygin** to be the **raising of the rate of profit**:

“Socialist emulation should be oriented toward.. the raising of the profitability of production”.

(A.N. Kosygin: *ibid.*; p. 43).

An important feature of the “moral stimuli” designed to encourage workers to maximise the rate of profit is what is called in the contemporary Soviet Union, as in orthodox capitalist countries,

“...worker participation in management”.

(Resolution of the All-Union Central Council of Soviet Trade Unions and the State Committee of the USSR Council of Ministers for Labour and Wages; “On Procedures for Concluding Collective Agreements”, August 20th., 1971, in: S. Kamenitser: *ibid.*; p. 81).

That such “**worker participation in management**” is far removed from workers’ control of industry is demonstrated by the **Statute on the Socialist State Production Enterprise**, which declares explicitly:

“The enterprise is managed on the basis of one-man responsibility”.

(Statute on the Socialist State production Enterprise, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 289).

Indeed, the term “worker participation in management” is used by contemporary Soviet economists so vaguely that “**socialist emulation**” – already discussed – is described as “**one of its main forms**”:

“Socialist emulation is one of the main forms of mass participation in the management of production... Socialist emulation is one of the most widespread forms of worker participation in management”.

(S. Kamenitser: *ibid.*; p. 83, 123).

Even in its narrower sense, “worker participation in management” in the Soviet Union means no more than that workers (or their representatives) participate in **regular discussions** with representatives of management in order that their approval may be won for the draft plans for the enterprise drawn up by the management and that the management may hear their constructive suggestions for increasing the productivity of labour and so the rate of profit:

“At every enterprise there are regular meetings of the standing production conferences which consider draft plans and their implementation. Techno-economic councils of enterprises, consisting of engineers and workers responsible for innovating new techniques, help the management to select the correct trends for developing technology and the economy...”

In carrying out his duties, every director relies on the help of workers and mass organisations in his enterprise, bringing them into discussion on draft plans and other important questions affecting production...

The local trade union works committee gives factory and office workers the opportunity to take part in management through general meetings,

production conferences and other gatherings...

Social organisations and the entire work force at the enterprise participate widely in discussing and implementing measures.. to develop and improve economic-production operations at the enterprise...

The industrial labour force takes part in management through improving production, making rationalisation proposals, searching out latent production facilities, etc.,...

Standing production conferences discuss urgent matters affecting production and make recommendations to the managers”.

(S. Kamenitser: *ibid.*, p. 14, 39, 80, 123, 125).

In other words, in the contemporary Soviet Union “worker participation in management” forms part of the ideological structure designed to delude the workers into believing that they are the “masters of production”. It is **purely consultative: decision-making is the prerogative of management:**

“Every system of management... includes three elements: a study of the prevailing conditions, decision-making, and managerial guidance in carrying out these decisions...

To manage means to take decisions...

Different levels of management make different kinds of decisions...

Decision-making is a very important part of management”.

(S. Kamenitser: *ibid.*; p. 91, 92, 95, 102).

The characterisation which contemporary Soviet sociologists make of “workers’ participation in management” in orthodox capitalist countries, which they describe as

“... ‘workers’ participation’ planned to exemplify ‘industrial democracy’ or ‘democratic management’ and representing one form of ‘class collaboration’”,

(N. Bogomolova: *ibid.*;’ p. 92).

as

“...pseudo-democratic”,
(N. Bogomolova: *ibid.*; p. 93)

is clearly **equally applicable to that operated under capitalism in the Soviet Union:**

“All that is important for him (the employer – WBB) is to create the impression among the rank-and-file workers that their opinions carry weight, their interests are taken into account, that they are equal partners in the firm, and thereby to stimulate their interest in their work and their sense of responsibility in relation to the affairs of the firm and at the same time to make it appear that the interests of the workers and those of the company are compatible...”

The danger for the workers lying in these pseudo-democratic contrivings resorted to by the corporation is that they give some workers the illusion... that they are their employers’ ‘partners’...

Despite the great variety of definitions of ‘workers’ participation’ that exist, they all have one thing in common: proposals put forward by the workers are regarded as suggestions which by no means have to be implemented. Final decisions on all matters still rest with the management. Peter Drucker, a well-known supporter of ‘workers’ participation’, writes that ‘the self-government of the plant community can only be justified if it strengthens management...’ ”

(P. Drucker: “The New Society: The Anatomy of Industrial Order”; New York; 1962; p. 283).

“Capitalist concerns only create the appearance of democratic management. Genuine participation in management is impossible given the exploitation inherent in the capitalist mode of production”.

(N. Bogomolova; *ibid.*; p. 92, 93, 94).

Another important feature of the “moral stimuli” designed to

encourage workers to maximise the rate of profit is the inculcation in the workers – in a capitalist economy! – of a “**communist attitude to labour**”:

“The Party will continue to pursue unswervingly its policy of enhancing the communist consciousness of the working people and of fostering a communist attitude towards labour”

(Resolution of CC, CPSU: “On Improving the Management of Industry, Perfecting Planning and Strengthening the Economic Stimulation of Industrial Production”, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 282-3).

“Educative methods... consist in fostering a communist world outlook among the people...

‘Communist labour...’, Lenin wrote, ‘is labour performed gratis for the benefit of society...; it is labour performed without expectation of reward’ ”.
(P.G. Bunich: *ibid.*; p. 40-1).

“In present-day conditions greater attention is being paid to moral stimuli, to...the fostering of an attitude to work as a patriotic duty...

The Soviet citizen treasures the ideals of communism... These moral traits play an important part in labour activity...

To foster in every worker a highly conscious attitude to labour means to develop readiness and a desire to work not only because someone is driving him on, and not only because his earnings depend on it, but by virtue of high consciousness and moral duty to the collective, to all of society...

Communist labour is labour of the highest productivity,... constructive and conscious labour for the common good without expectation of reward”.

(V.K. Fedinin: *ibid.*; p. 241, 245, 247).

Such “moral stimuli” have as one of their objectives **the strengthening of labour discipline** in the enterprise:

“It is impossible to imagine a factory operating efficiently without strict labour and production discipline”.

(A.N. Kosygin: *ibid.*; p. 42).

“Party, trade union and Komsomol (Young Communist League – WBB) organisations are obligated... to struggle persistently for... stronger labour and production discipline”.

(Resolution of CC, CPSU: “On Improving the Management of Industry, Perfecting Planning and Strengthening the Economic Stimulation of Industrial Production”, in: M.E. Sharpe (Ed.): *op. cit.*, Volume 2; p. 282).

“In present-day conditions greater attention is paid... to the strengthening of labour discipline... Socialist emulation is inconceivable without firm labour discipline Every violation of discipline... and absenteeism spell losses for the collective”.

(V.K. Fedinin: *ibid.*; p. 241, 246).

25: Economic Coercion

For the worker whose political consciousness is such that he is unprepared to observe, in the new Soviet capitalist economy, “the highest labour discipline” and to work “without expectation of reward” in order to maximise profit, there are not only the “economic stimuli” already described; there is

“... someone.. driving him on”,
(V.K. Fedinin: “The Economic Reform and the Development of Socialist Emulation”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 245).

namely, **the director** with his powers to **penalise** the recalcitrant worker in various ways, up to and including **dismissal**:

“The director... will hire and dismiss personnel..., and reward or penalise enterprise personnel”.
(Statute on the Socialist State Production Enterprise, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 311).

Thus, in order to stimulate the Soviet worker to maximise the rate of profit of the enterprise, economic and “moral” stimuli are reinforced, where necessary, by **measures of coercion**:

“Proper combination of persuasion and compulsion, of ideological and educational work with administrative measures, is a true way for further consolidating labour discipline”.
(V.K. Fedinin: *ibid.*; p. 247).

“Management should be founded on a rational combination of persuasion and coercion”.
(S. Kamenitser: “The Experience of Industrial Management in the Soviet Union”, Moscow; 1975; p. 129).

26: National Discrimination

The Soviet Union – more correctly, the **Union of Soviet Socialist Republics** – is **a multi-national unitary state composed of 15 Union Republics inhabited by more than 100 nations and pre-nations.**

The **largest and economically the most developed** of the constituent Union Republics of the USSR is the **Russian Soviet Federative Socialist Republic**, which accounts for 76% of the territory and 53% of the population of the country.

Except for the Estonian, Latvian and Lithuanian Soviet Socialist Republics on the Baltic, which were joined to the Soviet Union only in August 1940, the **non-Russian Union Republics inherited a level of economic development from tsarist days which was considerably lower than that of the RSFSR.**

In the period when a socialist society existed in the Soviet Union, the policy of the Communist Party was to overcome this economic inequality between the Union Republics by assistance from the RSFSR to the economically more backward Union Republics:

“The essence of the national question in the RSFSR lies in abolishing the actual backwardness (economic, political and cultural) that some of the nations have inherited from the past, to make it possible for the backward peoples to catch up with central Russia in political, cultural and economic respects”.

(J.V. Stalin: Report on the Immediate Tasks of the Party in the National Question, 10th. Congress of the RCP(B), in: “Works”, Volume 5; Moscow; 1953; p. 39).

“A new element has been introduced into the national question – the element of the actual (and not merely juridical) equalisation of national (help and co-operation for the backward nations in raising themselves to the cultural and economic level of the more advanced nations), as one of the conditions necessary for securing fraternal co-operation between the labouring masses of the various na-

tions”.

(J.V. Stalin: “Concerning the Presentation of the National Question”, in: *ibid.*; p. 58).

“Assistance to the backward nations in their cultural and economic development, without which what is known as ‘national equality of rights’ becomes an empty sound... – such is the national policy of the Russian Communists”.

(J.V. Stalin: “The October Revolution and the National Policy of the Russian Communists”, in: *ibid.*; p. 116).

“Economic and cultural inequality of the nationalities of the Union of Republics... can be overcome only by the Russian proletariat rendering the backward people of the Union real and prolonged assistance in their economic and cultural advancement”.

(J.V. Stalin: “National Factors in Party and State Affairs”, in: *ibid.*; p. 190-1).

“I understand our policy in the national question to be a policy of concessions to non- Russians... That policy is undoubtedly correct”.

(J.V. Stalin: Reply to the Discussion on the Central Committee’s Organisational Report, 12th. Congress of the RCP(B), in: *ibid.*; p. 235)

This assistance was to take the primary form of **assistance in the industrialisation of the economically more backward Union Republics:**

“Assistance... by the Russian proletariat to the backward peoples of the Union in their economic and cultural advancement.. must first and foremost take the form of a series of practical measures for creating in the republics of formerly oppressed nationalities industrial centres, into the operation of which the local population should be drawn to the greatest possible extent”.

(Resolution on “National Factors in Party and State Development”, 12th. Congress of the RCP(B), in: J.V. Stalin: “Marxism and the National and Colonial Question”; London 1936; p. 283).

“The immediate tasks that face the leading cadres in the Soviet East are: 1) to create industrial centres in the Soviet republics of the East”.

(J.V. Stalin: “The Political Tasks of the University of the Peoples of the East”, in: “Works”, Volume 7; Moscow; 1954; p. 137).

“We must see to it that life, industrial life, is pulsating in every district, in every okrug, in every gubernia, region and national republic. Unless we unleash the forces latent in the localities for the purpose of economic construction, unless we lend local industry every support, beginning with the districts and okrugs, unless we unleash all these forces, we shall not be able to achieve that general upswing of economic construction in our country that Lenin spoke about”.

(J.V. Stalin: Political Report of the Central Committee to the 14th. Congress of the CPSU(B), in: *ibid.*; p. 323).

Nevertheless, **significant differences remain between the various Union Republics** in the level of industrialisation, the national income per capita, the living space per capita, the average wage, the average savings bank deposit per capita, the number of hospital beds and doctors in proportion to population, and so on – as the tables in **Appendix One demonstrate.**

Contemporary Soviet sociologists admit these differences, but claim that the policy of the Soviet authorities continues to be a reduction of the differences in the economic, social and cultural levels which exist between the Union Republics:

“The Soviet state.. pays attention to the problems of lessening differences in living conditions in different regions”.

(P.S. Mstislavsky: "The Standard of Living" in: "The Soviet Planned Economy"; Moscow; 1974; p. 282).

But, in fact, **these differences are increasing.**

Table 3 of Appendix One shows that in **1970** the mean of the average urban living spaces in the six above-average Union Republics was 8.6 sq. metres, while that of the nine below-average Union Republics was 6.6 sq. metres per capita – a difference of 2[^] sq metres. But in **1958** the mean of the average living spaces of the first six Union Republics was 6.9 sq. metres per capita, that of the second nine Union Republics 5.4 sq. metres per capita – a difference of only 1.5 sq. metres.

("Narodnoe khoziaistvo SSSR v 1960 godu" (The National Economy of the USSR in the year 1960); Moscow; 1961; in: H.W. Morton: "What Have Soviet Leaders Done about the Housing Crisis?" in: H.W. Morton and R.L. Tokes "Soviet Politics in the 1970's"; New York; 1974; p. 171).

This point is demonstrated further in the tables of **Appendix Two.**

Analysis of the fifteen tables in Appendices One and Two reveals the following position as expressed as ratios of above average to below average for the various nations of the federation:

Ratio of Above Average: Below Average

Russia: 14 : 1
Estonia 14 : 1
Latvia 13: 2
Lithuania: 9 : 16
Ukraine: 6 : 9
Armenia 5 : 10
Byelorussia: 4 : 11
Georgia: 4 : 11
Kazakhstan: 3 : 12
Moldavia: 2 : 13
Turkmenia: 2 : 13
Azerbaijan: 1: 14
Kirghizia: 1 : 14
Tajikistan: 1 : 14

Uzbekistan: -: 15

The picture strongly suggested by the foregoing analysis – that the peripheral Union Republics have **a semi-colonial status in relation to the Russian Republic** – is confirmed by a more detailed analysis of the economy of the most backward of these peripheral Union Republics, **Uzbekistan**.

The proportion of collective farms in the Central Asian economic region having more than 500 households greatly exceeds the proportion for the USSR as a whole, and for the RSFSR:

Distribution of Collective Farms by No. of Households (1971)

	300 and under	301-500	Over 500
USSR:	40.6%	29.0%	30.4%
RSFSR:	49.8%	30.0%	20.2%
Central Asia:	11.5%	22.4%	66.1%

(“Selskoe khoziaistvo SSSR” (Agriculture in the USSR), p. 491; in: G. Hodnett: “Technology and Social Change in Soviet Central Asia: The Politics of Cotton Growing”, in: H.W. Morton & R.L. Tokes (Eds.): op. cit.; p. 83).

These large collective farms, concentrating on the growing of **cotton**, employ large numbers of **temporary workers from the towns** to pick their crop, while a high proportion of the collective farmers opt out of this task:

“Every year hundreds of thousands of city dwellers are brought in for the harvest, which causes enormous damage to the economy”.

(“Khlopkovodstvo” (Cotton-growing), No. 7, 1960, in: G. Hodnett: ibid.; p. 83-4).

In **Uzbekistan** in October 1962, for example, 186,000 outsiders put in an average of 26 days’ work in cotton, while 400,000 collective farmers did not participate.

(“Khlopkovodstvo” (Cotton-growing), No. 3, 1964, in: G. Hodnett: ibid.; p. 84).

Cotton-growing for “export” to the industrialised Union Republics – Uzbekistan itself has few textile mills – is **thus the basis of the Uzbek economy**, and it is the policy of the leaders of the

CPSU and state to maintain this situation:

“The climatic conditions and specific features of agricultural production in the republics of Central Asia and the Caucasus... demand workers with the necessary knowledge and labour habits of farming in these areas. Such workers are, above all, the native peoples of these regions. The mass recruitment of this population into industry, transport, construction, etc., might weaken the development of quite important sectors of agriculture. In planning the development of the economy, the specific features of such regions are taken into account. For example, in the Seven-Year Plan of developing the economy of the USSR for 1959-65, it is indicated that the Uzbek SSR will continue in the future to be the main cotton base of the country. Therefore, basic attention in Uzbekistan will continue to be devoted to the development of cotton growing”

(A.A. Isupov: “Natsionalnyi sostav naseleniia SSR” (National Composition of the Populations of the SSRs); Moscow, 1964; on: G. Hodnett: *ibid.*; p. 95).

“In developing the agriculture of Uzbekistan,... we need an agricultural complex on a cotton basis”.

(N.I. Mukhitdinov, in: “Materialy obedinennoi nauchnoi sessii po khlopovodstvu, sostoiashiesia v. g. Tashkente 15-21 oktobria 1957 g” (Collected Materials of the Scientific Session on Cotton-growing, held at Tashkent, October 15-21st, 1957); Tashkent, 1958; p. 31; in: G. Hodnett *L. ibid.*; p. 96).

This policy has led to an actual decline in food production per capita in Uzbekistan:

Food Production in Uzbekistan (1959-65)

Kilograms per capita	1959	1965
Meat	18.1	14.5
Milk	95.0	89.7
Grains	62.2	59.3

Potatoes	24.8	16.1
Fruits	23.4	19.0

(V.S. Nekhai: "The Production of Foodstuffs and the Level of Consumption in Relation to Population", in: A.M. Aminov (Ed.): "Razvitiie i sovershenstvovanie sotsialisticheskikh proizvodstvennykh otnoshenii v period stroitelstva kommunizma" (The Development and Perfecting of Socialist Industrial Relations in the Period of the Construction of Communism); Tashkent; 1968; in: G. Hodnett: *ibid.*; p. 71).

The official policy of maintaining a colonial-type economy in Uzbekistan has naturally led to **strong protests** against it in that Union Republic:

"Uzbekistan produces 70% of All-Union output of cotton lint, 38% of raw silk and 90% of kenaf fibre. Yet only 2.8% of cotton cloth manufactured in the country, 2.7% of clothes and shoes, 2.6% of knitwear and 2.1% of stockings and socks, are produced here, while the steadily growing share of the republic in the population of the USSR reached 5% in 1970. By quantity of output per capita of light industry products, Uzbekistan occupies one of the last places in the Soviet Union...

Just in the past five-year plan, the average tempos of growth in output of light industry were 8.5% for the nation as a whole, but 3.6% for Uzbekistan...

During the past 35 years not a single cotton textile combine has been built in the Uzbek SSR. Up to now, there are no enterprises for manufacturing woollen fabrics and blankets. There are few knitwear, garment and shoe factories...

During the last five-year plan, the target for capital investment in light industry was fulfilled by about 75%, for starting up new capacity – by 35%...

In 1969-71, 15 new enterprises were supposed to be built and 8 existing enterprises reconstructed. In actual fact, only 3 are being built and 2 reconstructed. In 1971 36 enterprises ought to have been

designed, but in reality only 5 are being designed”. (N.S. Ziadullaev: “Problemy optimizatsii razvitiia legkoi industrii uzbekistana v svete reshenii XXIV sezda KPSS” (Problems of the Optimisation of the Development of Light Industry in Uzbekistan in the light of the Decisions of the 24th. Congress of the CPSU), in: “Obshchestvennye nauki v uzbekistane” (Social Sciences in Uzbekistan), Volume 8, 1971, in: G. Hodnett: *ibid.*; p. 101).

“A process of releasing people is taking place as a result of the expansion of mechanisation... Tomorrow, if the brigade size is reduced to 12 people as a result of expanding the mechanisation of labour and raising productivity, many people will be released. Either it is necessary to develop other branches of agriculture, or it is necessary to put industrial units in the raion (i.e., district – WBB) centres and villages... We have a great natural population increase... Therefore, it is necessary to build food enterprises and enterprises in light industry and non-metal-intensive-machine-building”. (V. Akhundov: Speech to CC, CPSU, March 1965, in: G. Hodnett: *ibid.*; p. 99).

“The creation of a big textile industry in Uzbekistan is dictated by economic considerations”. (N.S. Ziadullaev: *ibid.*; p. 102).

On the other hand, these demands have been denounced as

“...manifestations of localism and narrow-mindedness in the leadership of cotton growing when all-state interests were neglected in favour of local tasks”.

(N.I. Mukhitdinov: Speech at Conference on Cotton-growing, Tashkent, October 1957, in: G. Hodnett: *ibid.*; p. 110).

A recent attempt to try to **damp down national sentiment in the peripheral Union Republics** in order to maintain their colo-

nial-type status was the abortive move, in April 1978, to delete from the new Georgian Constitution the recognition of Georgian as the official language of the Union Republic:

“Soviet authorities have reinstated Georgian as the official language of Soviet Georgia after demonstrations there last week over a proposed new constitution which had eliminated the language as the republic’s official tongue.

The demonstrations occurred on Friday in the Georgian capital of Tbilisi, when several hundred university students apparently marched from the campus about a mile through the city centre to the steps of the Government’s buildings where the Georgian Supreme Soviet was meeting to adopt the new constitution...

Georgians, who comprise most of the population, apparently interpreted this change to mean further ‘russification’ of their republic”.

(“Moscow Bows to Georgians in State Language Row”, in: “The Guardian”, April 19th, 1978; p. 7).

27: “The International Division of Labour”

The policy of national discrimination adopted in relation to the non-Russian Union Republics is “justified” theoretically in terms of what is called by contemporary Soviet economists the **“law of the international division of labour”**. This “law” is of great importance not only internally, but also externally since it is utilised to “justify” the policy adopted **towards the countries within Comecon and towards underdeveloped countries**. Here, however, space precludes treatment of the external relations of the Soviet Union.

According to Marxism-Leninism, the **value** of a commodity is determined, as has been pointed out in Section 14 (“Price Control”), by the amount of socially necessary labour time involved in its production.

But the socially necessary labour time involved in the production of a particular commodity **varies** in different regions and in different countries according to such factors as climate, soil, accessibility to mineral resources and the productivity of labour (the latter depending on the technical level of production). Thus, **the value of a particular commodity varies in different regions and in different countries**:

“Since... it (a commodity – WBB) is produced in economies at different levels of development, with a different labour productivity, there inevitably are distinctions... between the national values (prices of production) of commodities”.

(M. Senin: “Socialist Integration”; Moscow; 1973; p. 228-9).

Thus, the British economist **David Ricardo** (1772-1823) held that, under a completely free system of international trade, **each country would produce precisely those commodities which it was capable of producing at minimal value**, i.e., with the expenditure of a minimum amount of socially necessary labour:

“Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each... By using most efficaciously the peculiar powers

bestowed by nature, it distributes labour most effectively and most economically”.

(D. Ricardo: “The Principles of Political Economy and Taxation”; London; 1937; p. 80, 81).

Ricardo bases his theory on a hypothetical example. He assumes that the production of a certain amount of cloth in Britain requires the labour of 100 workers for a year, while the production of the same amount of cloth in Portugal would require the labour of 90 workers. This quantity of cloth could be exchanged for a certain quantity of wine, the production of which in Portugal requires the labour of 80 workers for a year, while the production of the same amount of wine in Britain would require the labour of 120. In these circumstances, it would be economically beneficial for both “countries” that **Britain should produce cloth and Portugal wine**, that Britain should exchange cloth for Portuguese wine, and that Portugal should exchange wine for British cloth, since this would save the labour of 20 workers in Britain and 10 workers in Portugal:

Before Specialisation	Wine	Cloth	Total
Portugal:	80	90	170
Britain:	120	100	220
Total:			390

After Specialisation	Wine	Cloth	Total	Saving
Portugal:	160	-	160	10
Britain:	-	200	200	20
Total:			360	30

Ricardo refrains from carrying his theory to its logical conclusion – that there would be an even greater total saving of labour if both cloth and wine were made in Portugal!

Many contemporary Soviet economists endorse at least “the rational basis” of Ricardo’s theory:

Further

	Wine	Cloth	Total	Saving
Portugal:	160	180	340	

Britain:	-	-	-
Total:		340	20

“Many economists who have analysed Ricardo’s above views believe that he has revealed the mechanism of the emergence of material advantages from the participation in the international division of labour...

The economists who see a rational grain in Ricardo’s theory and think of using it to promote the international socialist division of labour are closer to the truth”.

(M. Senin: *ibid.*; p. 233, 234).

Marx did, indeed, maintain that a region or country with a less technically developed level of production, by trading with a region or country with a more technically developed level of production

“... may... yet thereby receive commodities cheaper than it could produce them”.

(K. Marx: “Capital”, Volume 3; London; 1974; p. 238).

And it is allegedly on the basis of “Marxism” that contemporary Soviet economists maintain that economic “co-operation” between the Union Republics of the Soviet Union, as well as between the Soviet Union and underdeveloped countries, brings about, when it is based on “the international division of labour”

“....mutual benefit of the parties, which is attained through the saving of social labour in the production of individual goods”.

(A.I. Chekhutov: “Economic Co-operation with Socialist States as a Factor of Industrialisation of Developing Countries”; Moscow; 1973; p. 234).

Marx, however held that the application of “the international division of labour” meant that the region or country with the more technically developed level of production was able to **exploit** the region or country with the less technically developed level of production:

“Even if we consider Ricardo’s theory... three days

of one country's labour may be exchanged for a single day of another country's.... In this case the rich country exploits the poor one".

(K. Marx: "Histoire des doctrines économiques" (History of Economic Doctrines); Paris; n.d.; in: A. Emmanuel: "Unequal Exchange: A Study of the Imperialism of Trade" London; 1972; p. 92).

Thus, contemporary Soviet economists are compelled to admit that, even if there is "mutual benefit" from such international exchange, the region or country with the higher level of labour productivity derives significantly greater benefit than the region or country with the lower level of labour productivity:

"Marx... regarded.. as only natural that more developed countries should enjoy greater advantage from the division of labour. In his view a nation with a higher social labour productivity obtains in the international exchange.. '...a surplus profit'..

(K. Marx: "Capital", Volume 3; London; 1974; p. 238).

"Under any circumstances there exists an international exchange which in every concrete case brings greater advantages to countries with a more developed economy, and less advantages to countries with a less developed economy".

(M. Lenin: *ibid.*; p. 231, 235).

Soviet economists present "the international division of labour", based on

"...the international specialisation and co-operation of production"

(M. Lenin: *ibid.*; p. 63).

as an objective economic law, namely:

"...the law of the international division of labour".

(M. Lenin: *ibid.*; p. 57).

It is, therefore, on the basis that they are endeavouring to violate "an objective economic law" that contemporary Soviet propa-

gandists denounce Union Republics or foreign countries which seek to move in the direction of economic self-sufficiency:

“National selfishness and the tendency towards economic autarchy ultimately produce economic instability and increase dependence upon the world capitalist market”.

(V.I. Kuznetsov: “Economic Integration: Two Approaches”; Moscow; 1976; p. 41).

It is also noted that technological development is relatively more expensive in the industrially backward Union Republics than in the more industrially developed Russian Republic:

“Increases in industrial production are becoming relatively more expensive to achieve in most of the less developed areas of the USSR (i.e., the Central Asian and Transcaucasian republics) than in the already developed western regions”.

(F.D. Whitehouse: “Demographic Aspects of Regional Economic Development in the USSR”, in: V.N. Bandera & Z.L. Melnyk (Eds.): “The Soviet Economy in Regional Perspective”; New York; 1973; p. 156).

The policy of the new Soviet leadership is thus **to develop further “the international division of labour”** between the Union Republics of the Soviet Union – that is, **to develop further the semi-colonial status of the peripheral Union Republics in relation to the dominant Russian Republic:**

“In the 10th. five-year period... the territorial division of labour will become more effective, and the contribution of every republic and region to the attainment of all-Union objectives will be augmented”.

(A.N. Kosygin: “Guidelines for the Development of the National Economy of the USSR”, 25th. Congress CPSU; Moscow; 1976; p. 71).

28: Investment

Investment, as the term is used by contemporary Soviet economists, is **the provision of new means of production to the economy.**

Under the socialist system which formerly existed in the Soviet Union, new means of production were, as has been shown in the section entitled "Payment for Production Assets", **allocated** by the state to enterprises **without charge**, in accordance with the central state economic plan:

"Up to now capital investments in industry have in most cases been financed from non-repayable budget funds".

(V. Vorobyev: "Credit and Industrial Development", in: "Ekonomicheskaya gazeta" (Economic Gazette), No. 46, 1965, in: "The Soviet Economic Reforms: Main Features and Aims"; Moscow, 1967; p. 90).

"The financing of capital investment is currently handled by free grants from the state budget."

(A.N. Kosygin: "On Improving Industrial Management, Perfecting Planning and Enhancing Economic incentives in Industrial Production", in: "Izvestia" (News), September 28th., 1965, in: M.E. Sharpe (Ed.): "Planning, Profit and Incentives in the USSR", Volume 2; New York; 1966; p. 23).

Since the "economic reform", however, as has been shown in the same section, enterprises buy new means of production; but **only in exceptional cases are investment funds (that is, money capital) advanced to enterprises for this purpose by the state without charge:**

"At the present time... only in exceptional cases will the means (of investment – WBB) come from the budget".

(V. Batyrev: "The Economic Reform and the Increasing Role of Credit", in: "Kommunist" (Communist), No. 2, 1966, in: M.E. Sharpe (Ed.): op.

cit., Volume 2; p. 246).

Nevertheless, investment is still classified into “**centralised**” (that is, officially included in the central state economic “plan”) and “**decentralised**” (that is, made from enterprises’ own funds and not included in the central state economic “plan”):

“Non-centralised investments... are of local significance. They are made by the enterprises themselves which are guided by their own calculations”.

(P.G. Bunich: “Methods of Planning and Stimulation”, in: “Soviet Economic Reform: Progress and Problems”; Moscow, 1972; p. 37).

In 1969-70 some **80%** of total investment was classified as “centralised” and about 20% as “decentralised”; and it was intended that the proportion of “decentralised” investment should **increase**:

“At present... non-centralised investments make up about 20% of total investments. But as the reform is deepened this share will grow”.

(T.S. Khachaturov: “The Economic Reform and Efficiency of Investments”, in: “Soviet Economic Reform: Progress and Problems”; Moscow, 1972; p. 156).

“In accordance with the decision of the September (1965 – WBB) Plenary Meeting of the CPSU Central Committee, the volume of decentralised capital investments is being expanded considerably”.

(P. Bunich: “Economic Stimuli to Increase the Effectiveness of Capital Investments and the Output-to-Capital Ratio”, in: “Voprosy ekonomiki” (Problems of Economics), No. 12, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 185-6).

It is, however, not only the “decentralised” 20% of total investment which is made from enterprises’ own funds. In addition to this, **73.5%** of “centralised” investment (that is, **58.8% of total investment**) also came from **enterprises’ own funds**: (I. Shur: “Long-term Credit in Industry”, in: “Voprosy ekonomiki” (Prob-

lems of Economics), No. 6, 1970, in: "Problems of Economics", Volume 13, No. 8; December 1970; p. 46).

Thus, **some 78.8% of total investment comes from enterprises' own funds.**

For the purpose of making such investments, each enterprise is obliged to set up a **production development fund:**

"There are now three types of material incentive funds at the Soviet enterprise...

c) a production development fund designated for investment by the enterprise".

(V.M. Batyrev: "Commodity-Money Relations under Socialism", in: "The Soviet Planned Economy"; Moscow; 1974; p. 172).

On the average, 65% of an enterprise's production development fund is formed from **depreciation allowances** (state-determined allowances for wear and tear of existing means of production, deducted from the enterprise's gross income before profits are calculated).

(R. Krylov, L. Rotshtein & D. Tsarev: "On the Procedure and Conditions for Changing to the New System", in: "Planovoe khoziaistvo" (Planned Economy), No. 4, 1966, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 267).

On the average, **40%** of depreciation allowances are transferred to the enterprise's production development fund, the remaining 60% going to the state.

(R. Krylov, L. Rotshtein & D. Tsarev: ibid.; p. 267)

Thus,

"Depreciation charges are the most important source of enterprise funds for financing investments".

(K.N. Plotnikov: "Soviet Finance and Credit", in: "The Soviet Planned Economy"; Moscow; 1974; p. 218).

On the average, the remaining **35%** of an enterprise's produc-

tion development fund comes from: firstly, transfers from **profits**; and secondly, **proceeds from the sale of superfluous means of production**:

“The production development fund will be made up of three sources: part of the profit, part of the depreciation allowances designated for the complete renewal of fixed assets, and receipts from the sale of superfluous equipment”.

(B. Sukharevsky: “New Elements in Economic Incentives”, in: “Voprosy ekonomiki” (Problems of Economics), No. 10, 1965, in: “The Soviet Economic Reform: Main Features and Aims”; Moscow; 1967; p. 80).

“Profit is a vitally important source of expanded socialist reproduction”.

(L. Gatovsky: “The Role of Profit in a Socialist Economy”, in: “Kommunist” (Communist), No. 18, 1962, in: M.E. Sharpe (Ed.); op. cit., Volume 1; p. 89).

“The role of profit will also be reinforced as a source of the reproduction of fixed assets in the enterprises”.

(B. Sukharevsky: “The Enterprise and Material Stimulation”, in: “Ekonomicheskaya gazeta” (Economic Gazette), No. 49, 1965, in: M.E. Sharpe (Ed); op. cit., Volume 2; p. 210).

The establishment of production development funds brought about a very large increase in the enterprises’ funds available for investment: from **120 million rubles** in 1964 to **4,000 million rubles** in 1967 – an increase of **more than 33 times**.

(A.N. Kosygin: *ibid.*; p. 22-3).

Furthermore, between 1966 and 1970 enterprises’ production development funds rose, on average by **6 times**.

(N.Y. Drogichinsky: “The Economic Reform in Action”, in: “Soviet Economic Reform: Progress

and Problems”; Moscow; 1972; p. 207).

Any investment made by an enterprise over and above the funds available in its production development fund must (as has been shown in the sections entitled “Payment for Production Assets” and “Credit and Interest”) normally be obtained in the form of **bank credit**, repayable by the enterprise **with interest**:

“Expenditures for the reconstruction and expansion of existing enterprises will come not only from their own resources but also from long-term bank credits. Moreover, the intention is to extend long-term loans for the construction of new enterprises in instances when credit will be repaid in a relatively short period after the installations go into operation.

According to preliminary calculations, more than half of the present total volume of capital investments – 20 to 25 thousand million rubles – can be effectuated through credit”.

(V. Garbuzov: “Finances and Economic Stimuli”, in: “*Ekonomicheskaya gazeta*” (Economic gazette), No. 41, 1965, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 54).

“The reconstruction of existing enterprises... will be fully financed from profits, amortisation (i.e., depreciation allowances – WBB) and bank credits”.

(V. Batyrev: “The Economic Reform and the Increasing Role of Credit”, in: “*Kommunist*” (Communist). No. 2, 1966, in: M.E. Sharpe (Ed.): op. cit., Volume 2; p. 246).

“Credit is a much more advantageous way of financing than non-repayable budget funds...

Under the new conditions of economic management new enterprises will be built on credits supplied by the Stroibank... provided that the outlay be repaid within five years from the time the project goes into operation...

The reconstruction and extension of existing plants and factories will be financed partly from the profit and depreciation allowances for complete restoration of fixed assets and partly from Stroibank credits”.

(V. Vorobyev: *ibid.*; p. 90-1).

“Investments in enlarging and modernising operating enterprises will be increasingly made on account of the production development fund and back credits. Moreover, industry’s own resources and long-term bank credits will serve as sources of investment in new enterprises which recoup with their own profit the invested resources in periods of up to five years”.

(T.S. Khachaturov: *ibid.*; p. 156).

“Investments are financed first of all out of funds owned by the enterprises, organisations and construction sites. If these are insufficient, then bank credits are allocated”.

(K.N. Plotnikov: *ibid.*; p. 217-8).

Despite the forecasts of some Soviet economists that “more than half” of investment might be effected through **bank credits**, by 1974 **only 3.3%** of investment was in fact effected in this way. (V.N. Kulikov: “Some Problems of Long-term Crediting of Centralised Capital Investments”, in: “Finansy SSSR” (USSR Finances). No. 5, 1974, in: “Problems of Economics”, Volume 17, No. 10; February 1975; p. 61).

The basic reason why bank credit came to constitute such a very small proportion of investment was:

“...the high profitability of the majority of existing enterprises, which makes it possible to make capital investments from their own resources”.

(V.N. Kulikov: *ibid.*; p. 61).

Indeed, one of the aims of establishing a “sufficiently high” rate of interest on bank credits was to “**encourage**” enterprises to finance their investment from their own funds:

“Credits for capital investments in industry will encourage mobilisation of the enterprises’ own reserves”.

(V. Vorobyev: *ibid.*; p. 91).

In other words, one of the cardinal aims of the “economic reform” was that enterprises should adopt

“...the principle of total self-financing”.

(N. Fedorenko: “On the Elaboration of a System of Optimal Functioning of the Socialist Economy”,, in: “Voprosy ekonomiki” (Problems of Economics), No. 6, 1972, in: “Problems of Economics”, Volume 15, No. 6; January 1973; p. 21).

“Cost accounting has essentially widened the sphere of self-sufficiency. Self-sufficiency means that an enterprise itself finances its current and long-term expenditures and obtains a profit on a scale which ensures extended socialist reproduction”.

(P.G. Bunich: “Methods of Planning and Stimulation”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 51-2).

Only previously in **Nazi Germany** have enterprises attained the degree of self-sufficiency – of relative independence of bank credit – enjoyed by the majority of enterprises in the contemporary Soviet Union:

“The 1933 legislation had .. encouraged internal financing by tax privileges and tax exemptions... For 1938 we reach a figure of nearly 5,000 million marks undistributed profits ... Industry is no longer indebted to banks...

The victory of internal financing over the borrowing from banks, savings banks and insurance institutions indicates... the decay of the role of banking capital. That decline is a universal trend...

The primacy of self-financing over borrowing is not the end of capitalism and is not even the end of finance capitalism. It merely indicates that the

seat of finance capitalism has shifted from the banks to industry, or rather to a congruence of banks and industry”.

(P. Neumann: “Behemoth: The Structure and Practice of National Socialism”; London; 1942; p. 261, 262).

State investment grants have, since the “economic reform”, been restricted to “exceptional cases” approved by the USSR Council of Ministers – generally large-scale new construction projects whose recoupment period will exceed five years from commencement of operations:

“Financial grants made by the state to enterprises for capital investment must be restricted and the use of credits expanded”

(A.N. Kosygin: *ibid.*; p. 21).

“Budgetary allocations for this purpose (i.e., investment – WBB) must be authorised by the USSR Council of Ministers”.

(V. Vorobyev: *ibid.*; p. 246)

“Only in exceptional cases will the means (for investment – WBB) come from the budget”.

(V. Batyrev: *ibid.*; p. 246).

State enterprises themselves are responsible for almost 80% of total investment, an increasing proportion of investment goes to the expansion or modernisation of existing enterprises rather than to the construction of new enterprises:

“Every year 80% and more of all investments go into projects in the process of construction... and thus the possibilities of building new projects, including those for the development of new sectors, are limited”.

(T.S. Khachaturov: *ibid.*; p. 165).

This applies particularly to the European and Urals region of the Soviet Union, new projects being scheduled for development mainly in the eastern region of the country, especially Siberia:

“The eastern regions, especially Siberia, where industrial production is to be raised by nearly 50%, will develop at priority rates...

In the European part of the USSR and in the Urals industrial development will largely follow the line of technical re-equipment and reconstruction of operating enterprises”.

(A.N. Kosygin: “Guidelines for the Development of the National Economy of the USSR for 1976-1980”, 25th Congress CPSU; Moscow; 1976, p. 72).

Investment is classified by contemporary Soviet economists into “**extensive**” (involving an expansion of the labour force) and “**intensive**” (bringing about a rise in the productivity of labour but **not** involving an expansion of the labour force – indeed, possibly permitting a **reduction** in the labour force):

“Investments in the expansion of production can schematically be divided into two parts. One of them goes for increasing the quantity of the means of labour. To set into motion these new productive capacities new workers, engineers and technicians are needed... The other part of investments goes into extended reproduction for replacing the operating means of labour by technically more improved (ones – WBB) which raise labour productivity. These investments do not demand additional manpower; moreover, they make it possible to release manpower...

These types of investments may conventionally be called extensive (requiring new manpower) and intensive (which ensure a rise in labour productivity and release manpower)”
(T.S. Khachaturov: *ibid.*; p. 152).

“National income can grow mainly on account of additional investments, an increase in the work force as a whole and the number of persons employed in the sphere of material production – this is the extensive method of development. But there

is also another way – the intensification of social production. This can be achieved by replacing existing equipment with new technically advanced machinery and by attaining, on the basis of new technology, a rise in labour productivity and a saving of material, manpower and financial resources. This way is more efficient and therefore preferable”.

(D.A. Allakhverdyan: “National Income and Income Distribution in the USSR”, in: “The Soviet Planned Economy”; Moscow, 1974; p. 85).

In determining its investment policy, an enterprise is, of course, guided by its assessment of **what will maximise its rate of profit:**

“In making investments on account of its own development fund or bank credit, an enterprise will choose alternatives which enable it to increase profit and raise the level of profitability... Of all the alternatives an enterprise will choose one that provides for the biggest rise in profitability”.

(T.S. Khachaturov: *ibid.*; p. 156).

“In view of the huge scale of investments great significance attaches to their economic efficiency, i.e., choosing the most favourable trends in construction, ensuring the biggest returns per unit of investments”.

(K.N. Plotnikov: *ibid.*; p. 217).

Despite the great increase in the size of enterprises’ funds available for investment, since the “economic reform” the **growth rate of investment has declined markedly**, as follows:

<u>YEAR</u>	<u>GROWTH RATE</u>
1966-70:	43%
1971-75:	42%
1976-80:	(“planned”): 25%
(“Soviet Economy Forges Ahead”; Moscow, 1973; p. 16). (A.N. Kosygin: <i>ibid.</i> ; p. 11, 69).	

This is, of course, in line with the practice of orthodox capitalist

countries **in conditions of monopoly**, where maximum profitability often accrues from continuing to operate means of production after they have become obsolescent.

The decline in the growth rate of investment has been associated with **a decline in the growth rate of industrial output:**

<u>YEAR</u>	<u>GROWTH RATE</u>
1966-70:	50%
1971-75:	47%
1976-80	("planned"): 35-39%
("Soviet Economy Forges Ahead"; Moscow, 1973; p. 160). (A.N. Kosygin: <i>ibid.</i> ; p. 29).	

and with **a decline in the growth rate of national income:**

<u>YEAR</u>	<u>GROWTH RATE</u>
1966-70:	41%
1971-75:	39%
1975-80	("planned"): 24-28%
(D.A. Allakhverdyan: <i>ibid.</i> ; p. 88); (A.N. Kosygin: <i>ibid.</i> ; p. 29).	

30: The Concentration and Centralisation of Capital

Marx holds that the economic laws of capitalism lead to the concentration of capital, of means of production, in increasing amounts in the hands of individual capitalists:

“The specifically capitalist mode of production... causes.. an accelerated accumulation of capital...

Every accumulation becomes the means of new accumulation. With the increasing mass of wealth which functions as capital, accumulation increases the concentration of that wealth in the hands of individual capitalists...

Concentration of the means of production... is identical with accumulation”.

(K. Marx: “Capital”, Volume 1; London; 1974; p. 585, 586).

This process of concentration of capital takes place, of course, in the contemporary Soviet economy, where it is **actively encouraged by the state:**

“The work of concentrating production... was continued during the economic reform”. (NY. Drogichinsky: “The Economic Reform in Action”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 209)

“The 24th Congress of the CPSU considered it necessary to carry out a series of measures to improve economic management... The most important of these measures are aimed at concentrating production”.

(“Soviet Economy Forges Ahead”; Moscow; 1973; p. 233).

“Besides the general laws inherent in the socialist economy as a whole, there are a number of regularities.. determined by general economic laws. Among them the following may be mentioned:

a) the concentration of socialist production, i.e.,

the increase in size of enterprises”.

(S. Kamenitser: “The Experience of Industrial Management in the Soviet Union”; Moscow; 1975; p. 19).

The **changing distribution** of Soviet enterprises according to **gross output** is shown in the following table:

<u>Enterprises with a gross output:</u>	<u>1960</u>	<u>1963</u>	<u>1968</u>
Under 100,000 rubles:	12.0%	9.0%	9.0%
From 101,000 to 500,000 rubles:	26.2%	20.2%	16.9%
From 501,000 to 5,000,000 rubles:	50.9%	55.0%	52.1%
From 5,001,000 to 50,000,000 rubles:	10.1%	14.6%	20.0%
Over 50,000,000 rubles:	0.8%	1.2%	2.0%

(“Soviet Economy Forges Ahead”; Moscow; 1973; p. 176).

Thus, the proportion of enterprises with an output in excess of 500,000 rubles **rose** from 61.8% in 1960, to 70.8% in 1963, to 74.1% in 1968, while the proportion with an output of 500,000 rubles or less **fell** from 38.2% in 1960, to 29.2% in 1963, to 25.9% in 1968.

The changing distribution of Soviet enterprises according to number of workers employed is shown in the following table:

<u>Enterprises employing:</u>	<u>1960</u>	<u>1963</u>	<u>1968</u>
Less than 200 workers:	63.6%	55.9%	56.4%
From 201 to 1,000 workers:	29.3%	34.4%	33.7%
From 1,001 to 3,000 workers:	5.5%	7.3%	7.5%
From 3,001 to 10,000 workers:	1.4%	2.1%	2.1%

(“Soviet Economy Forges Ahead”; Moscow; 1973; p. 176).

Thus, the proportion of enterprises employing more than 1,000 workers **rose** from 7.1% in 1960 to 9.7% in 1963, to 9.9% in 1968, while the proportion of enterprises employing 1,000 workers or less **fell** from 92.9% in 1960 to 90.3% in 1963, to 90.1% in 1968.

It must be noted that the change in distribution over these years of enterprises according to gross output is **much more marked** than that according to number of workers employed. For example, the proportion of enterprises employing over 3,000 workers remained

stationary at 2.4% between 1963 and 1968, despite an increase in the proportion of enterprises with a gross output of more than 5,000,000 rubles from 70.8% to 74.1%. This was the result of **modernisation of technical equipment**, permitting an increase of output **without** an increase – or even with a **decrease** – in manpower:

“New large-scale enterprises equipped with advanced plant and machinery no longer require a large labour force. What is more, some of these enterprises are in the bottom league in terms of the number of employees and the number of such enterprises is growing”
 (“Soviet Economy Forges Ahead”; Moscow; 1973; p. 177).

Concentration of capital has already reached, in the contemporary Soviet Union, a much higher level than in the most advanced orthodox capitalist countries, as the following comparative table for 1967 shows:

Number of enterprises

USSR:	41,226
West Germany:	102,162
Britain:	195,161
France:	272,944
USA:	334,400
Japan:	563,327

Proportion of enterprises employing more than 100 workers

USSR:	70.2%;
West Germany:	13.0%;
USA:	8.4%;
Britain:	7.7%;
France:	3.1%;
Japan:	2.2%;

Proportion of enterprises employing more than 500 workers

USSR:	24.4%
West Germany:	1.8%

Britain:	1.5%
USA:	1.4%
France:	0.5%
Japan:	0.3%.

Average number of workers employed per enterprise

USSR:	565
West Germany:	83
USA:	48
Britain:	45
France	18
Japan	17

Khasha: "Concentration of Production and Small-scale Industry", in: "Voprosy ekonomiki" (Problems of Economics), No. 5, 1967, in "Problems of Economics", Volume 10, No. 10; February 1968; p. 13).

The concentration of capital proceeds **unevenly**, not only in different countries, but also in different enterprises, industries and regions of the same country:

"Uneven economic... development is an absolute law of capitalism".

(V.I. Lenin: "The United States of Europe Slogan", in: "Selected Works", Volume 5; London; 1935; p. 141).

and **Marx** points out that it is a feature of a capitalist economy that **small enterprises are unable to compete successfully with their larger competitors:**

"The battle of competition is fought by cheapening of commodities. The cheapness of commodities depends, other things being equal, on the productiveness of labour, and this again on the scale of production. Therefore, the larger capitals beat the smaller".

(K. Marx: *ibid.*, Volume 1; p. 586).

Contemporary Soviet economists admit that smaller enterprises in the Soviet Union suffer **precisely the disadvantages** described

by Marx:

“Small enterprises are faced with difficulties. Since their economic stimulation funds are not big, they are not always able to build cultural and service establishments and houses and also to undertake measures for the development of production because the size of the funds does not allow them to do this in one or two years...

Economic stimulation funds can be better utilised in cases where they are set up by big enterprises...

Small enterprises, as a rule, have higher labour inputs and lower labour productivity, a larger share of ancillary personnel and bigger fluctuations in the growth rates of output sold and profit”.

(N.Y. Drogichinsky: *ibid.*; p. 217, 218-9).

“There are still too many small enterprises which are unable to raise their engineering standards on their own”.

(“Soviet Economy Forges Ahead”; Moscow; 1973; p. 233).

As a result, as Marx points out, the economic laws of capitalism lead to **the centralisation of capital**, of means of production, that is, their concentration in the hands of a decreasing number of capitalists:

“Competition.. always ends in the ruin of many small capitalists, whose capitals partly pass into the hands of their conquerors, partly vanish...

As soon as the capitalist mode of production stands on its own feet,.. that which is now to be expropriated is no longer the labourer working for himself, but the capitalist exploiting many labourers. This expropriation is accomplished by the action of the immanent laws of capitalistic production itself, by the centralisation of capital. One capitalist always kills many”.

(K. Marx: *Ibid.*, Volume 1; p. 587, 714).

This process of **centralisation of capital** occurs, of course, in the contemporary Soviet economy, where it is **actively encouraged by the state.**

The “economic reform” itself was carried out in a way **advantageous to larger enterprises,** which were, in general, transferred to the “reformed” system **before their smaller rivals.**

In 1967 7,200 enterprises, accounting for **37%** of industrial output and **50%** of industrial profit, were already operating under the “reformed” system.

In 1968 a further 19,650 enterprises, accounting for **35%** of industrial output and 30% of industrial profit, were transferred to the “reformed” system.

In 1969 a further 9,150 enterprises, accounting for **12%** of industrial output and **11%** of industrial profit, were transferred.

In 1970 a further (unstated) number of enterprises, accounting for **8%** of industrial output and **5%** of industrial profit, were transferred. (N.Y. Drogichinsky: *ibid.*; p. 197, 200, 202).

Marx draws attention to the fact that the process of centralisation of capital is **stimulated by the role of the banks:**

“The credit system... becomes a new and terrible weapon in the battle of competition and is finally transformed into an enormous social mechanism for the centralisation of capitals”.

(K. Marx: *ibid.*, Volume 1; p. 587).

The **state banks of the contemporary Soviet Union** play precisely the role described by Marx in this connection. As has been shown in the section entitled “Credit and Interest”, their policy is to grant **more favourable credit terms** to more profitable enterprises – and this means, in general, the **larger** enterprises.

Furthermore, the **larger** enterprises are **less dependent on bank credit** than the smaller enterprises.

As in orthodox capitalist countries:

“The liquidation of an enterprise will be carried out either by a liquidation commission appointed by the superior body or by the director of the enterprise on orders from this body...”

The time limits for the submission of claims by creditors to the enterprise being liquidated will

be fixed by the body that has decided to liquidate the enterprise, but cannot be less than a month.

The liquidation commission.. will publish in the official press organ of the given region, territory or republic, an announcement on the liquidation of the enterprise and the time limit for the submission of claims by creditors...

Claims against the enterprise being liquidated will be met from its property on which, by law, execution may be levied...

Claims that have not been ascertained or submitted during the liquidation period, as well as claims that have not been met owing to the insufficiency of the property of the enterprise being liquidated, will be regarded as extinguished”.

(“Statute on the Socialist State Production Enterprise” in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 314-5).

Most relatively unprofitable enterprises are, however, not liquidated, but “**reorganised**”, that is, **merged with one or more other enterprises** to form a new, larger enterprise:

“Reorganisation... of the enterprise will be effected by decision of the body authorised to set up such enterprises.

In case the enterprise is merged with another enterprise, all property rights and obligations of each of them will pass over to the enterprise resulting from the merger.

In the event that one enterprise is joined to (i.e., merged into – WBB) another, the latter will assume all the property rights and obligations of the former. (ibid.; p. 313-4).

“Within industries a network of cost-accounting amalgamations is being set up”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives in Industrial Production”, in “Izvestia” (News), September 28th., 1965, in: M.E.

Sharpe (Ed.): op. cit., Volume 2; p. 37.

“Small enterprises are being enlarged, reorganised into big ones”.

(A.M. Romyantsev: “Management of the Soviet Economy Today: Basic Principles”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 17).

The process of centralisation of capital has led to **a considerable reduction in the number of Soviet capitalists**:

“The Ministry of Machine-tool and Instrument-making, during the 1969-1970 period alone,... released more than 12,000 employees from the managerial apparatus and curtailed annual managerial expenditure by 24.5 million rubles”.

(B. Gubin: “Raising the Efficiency of Socialist Economic Management”; Moscow; 1973; p. 107).

31: Soviet Monopoly Capitalism

Lenin held that, as a result of the operation of the economic laws inherent in the capitalist economy, **competitive capitalism** gave way, at a certain stage of its development, to **monopoly capitalism or imperialism**, in which a relatively small number of capitalist groups with monopolistic power dominated the economic life of society:

“Imperialism emerged as the development and direct continuation of the fundamental attributes of capitalism in general. But capitalism only became capitalist imperialism at a definite and very high stage in its development... The fundamental economic factor in this process is the substitution of capitalist monopolies for capitalist free competition...”

Imperialism is the monopoly stage of capitalism...

Imperialism is capitalism in that stage of de-

velopment in which the domination of monopolies and finance capital has established itself”.

(V.I. Lenin: “Imperialism, the Highest Stage of Capitalism”, in: “Selected Works”. Volume 5; London; 1935; p. 80-1).

In the section entitled “The Concentration and Centralisation of Capital” the process of development of Soviet capitalist enterprises into extremely large conglomerates of capital has been described. But, with the active encouragement of the Soviet state, these extremely large enterprises have been further combined into even larger groupings with monopolistic power – called by contemporary Soviet economists **“production associations”**:

“Besides the general laws inherent in the socialist economy as a whole, there are a number of regularities.. determined by general economic laws... Among them the following points may be mentioned...

a) the process of combination as a vital trend for securing the comprehensive use of raw materials;..

d) co-operation as a form of association of a group of enterprises for producing some finished product”.

(S. Kamenitser: “The Experience of Industrial Management in the Soviet Union”; Moscow; 1975; p. 19).

“Small enterprises are being enlarged, reorganised into big ones. Production associations of several types are increasingly spreading”.

(A. M. Rumyantsev: “Management of the Soviet Economy Today: Basic Principles”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 17).

“The systematic establishment of production associations is a necessary requisite for improving the organisation of production and management which ultimately facilitates a rise in the efficiency of so-

cial production. The need for setting up production associations (combined works) was emphasised in the 24th. CPSU Congress decisions”.

(N.Y. Drogichinsky: “The Economic Reform in Action”, in: “Soviet Economic Reform: Progress and Problems”; Moscow; 1972; p. 221-2).

By 1973 about **5,000 “production associations”** had been brought into being.

(B. Gubin: “Raising the Efficiency of Socialist Economic Management”; Moscow; 1973; p. 86).

Active encouragement of the formation of monopolies **on the part of the state** on the scale of that which took place in the Soviet Union, occurred previously only in Nazi Germany, where, on July 15th., 1933, a

“...cartel statute was enacted, introducing compulsory cartelisation. The Federal Minister of Economics was given the power to create compulsory cartels, to compel outsiders to attach themselves to existing cartels”.

(F. Neumann: “Behemoth: The Structure and Practice of National Socialism”; London; 1942; p. 218).

Soviet “production associations”, like monopolies in orthodox capitalist countries, may take the form of “trusts” (that is, **cartels**, in which the enterprises within the “production associations” **retain their managerial independence**), or of “**firms**” and “**combines**” (in which the enterprises within the “production association” have **a single managerial apparatus** which is normally that of the largest enterprise within the “production association”, with the smaller enterprises functioning as its **subsidiaries**):

“Associations... may include enterprises which fully preserve their independence or enterprises which have been turned into subsidiaries”.

(S. Kamenitser: *ibid.*; p. 37).

Again, Soviet “production associations”, like monopolies in orthodox capitalist countries, may be classified into **two types**:

Firstly, horizontal “production associations”, which embrace enterprises involved in production of the same kind; where such horizontal “production associations” take the form of cartels, they are called by contemporary Soviet economists “trusts”; where they embrace enterprises with a single managerial apparatus, they are called by contemporary Soviet economists “firms”:

“Specialised associations... have become widespread in the form of firms. There is now talk of establishing in the country a network of even larger economic organisations, which would unite the enterprises of a definite branch or field in a given area, an area that in some cases would extend beyond the borders of a region, territory, or even a union republic”.

(L. Gatovsky: “Unity of Plan and Cost Accounting”, in: “Kommunist” (Communist), No. 15, 1965, in: M.E. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 83).

“There are... sectoral or territorial associations of one type. They are in the nature of trusts”.

(A.M. Rumyantsev: *ibid.*; p. 17).

“Soviet associations of the ‘trust’ type incorporate, as a rule, enterprises manufacturing products of the same kind...

An association of the ‘firm’ type incorporates, as a rule, enterprises of one industry, connected by relations of co-operation in manufacturing products of the same kind”.

(B. Gubin: “Raising the Efficiency of Socialist Economic Management”; Moscow; 1973; p. 89-90).

“Industrial firms are, as a rule, amalgamations of enterprises within one branch, in which other enterprises.. are subordinated... to the largest and organisationally and technically most advanced en-

terprises... Trusts are quite widespread in the extractive and some other industries of the Soviet Union. They are set up according to the branch principle”.

(B. Zabelin: “Industrial Management: Soviet Experience”; Moscow: n.d.; p. 57-8).

Secondly, **vertical** “production associations”, which embrace enterprises involved in a sequence of operations leading to the production of a particular end-product; these generally have **a single managerial apparatus** which is normally that of the largest enterprise within the “production association”, with the smaller enterprises functioning as subsidiaries; such “production associations” are called by contemporary Soviet economists “**combines**”:

“At times associations include enterprises linked by consecutive production.. They, in effect, are a form of enlarged enterprise”.

(A.M. Rummyantsev: *ibid.*; p. 17).

“Associations of the ‘combine’ type incorporate enterprises connected by the sequence of operations in processing raw materials and manufacturing end products”.

(B. Gubin: *ibid.*; p. 90).

“Combines... are multi-branch enterprises including factories and plants connected by similar technical and production features.

A combine usually unites enterprises of different production branches according to the following criteria: combination of successive processing stages of the same source material; utilisation of waste and by-products”.

(B. Zabelin: *ibid.*; p. 57).

“Production associations” have, of course, great advantages over even large individual enterprises in the sphere of profit-making. Most of them have their own design, research and development divisions and are financially completely self-sufficient:

“A production association headed by a big enterprise offers a number of advantages.. The advantages of the associations have been particularly displayed under the new system of planning and economic stimulation”.

(N.Y. Drogichinsky: *ibid.*; p. 220, 221).

“Large scale production amalgamations embracing not only enterprises but also design and research and development organisations have everything they need for a rapid introduction of new developments in science and technology.”

(“Soviet Economy Forges Ahead”; Moscow; 1973; p. 234).

“Whatever the structure of industrial associations, the income they derive from the marketing of their products is sufficient, in most cases, not only to meet current production costs but also to meet the costs of research, design and other operations concerned with technological progress. It also covers to a considerable extent the capital investments needed for expanding production... In the associations, fullest expression is given to the principle of financial self-reliance as the basic principle of cost accounting”.

(B. Gubin: *ibid.*; p. 105).

The formation of “production associations” has enabled the **rationalisation programme** – with its attendant large technological **“releases of labour”** – to be **intensified**:

“Great savings were effected by the organisation of associations in the oil-refining industry. As a result of setting up the ‘Kuibyshevneft’ association, the managerial offices of 7 oil- drilling enterprises, 11 oilfields and 51 oil-producing and drilling sections were abolished. This enabled the release of over 1,000 workers and a saving of 1.3 million rubles in the annual labour remuneration fund”.

(B. Gubin: *ibid.*; p. 108).

The formation of firms and combines has also, of course, further **reduced the number of Soviet capitalists:**

“The experience of the Likhachov Motor Works, which actually is a production association, is of interest...

A considerable saving in managerial expenses is effected. Thus, at the Likhachov Works there is no special apparatus for managing the branch factories and the relevant activity is handled by the staff of the head works”.

(N.Y. Drogichinsky: *ibid.*; p. 220-1).

One of the principal advantages possessed by a monopoly is its ability to maintain its **prices** (and so its rate of profit) **at a higher level than would obtain under conditions of competition.** Thus, contemporary Soviet economists admit that the formation of such monopolies in the Soviet Union has led to **a “dangerous” tendency for prices to rise:**

“There is the danger that the prices will constantly rise... From time to time, such trends have arisen in the course of economic reforms carried out in the German Democratic Republic, the Polish People’s Republic and the Czechoslovak Socialist Republic, where the various economic units have striven to increase their income (profit, gross income) by the easiest avenue – by raising the sale prices on their output”. (P. Kuligin: “Improvement of Price Formation under the Economic Reform”, in: “Nauchnye doklady vysshei shkoly: Ekonomicheskie nauki” (Scientific Reports of Higher Schools: Economic Science), No. 4, 1969, in: “Problems of Economics”, Volume 12, No. 6; October 1969; p. 33).

“Our experience points to the existence of a dangerous trend towards arbitrary price rises”.

(L. Maizenberg: “Improvements in the Wholesale Price System”, in: Voprosy ekonomiki” (Problems of Economics), No. 6, 1970, in: “Problems of Eco-

nomics”, Volume 13, No. 10; February 1971; p. 63-4).

“A special place in the development of wholesale trade and in the application of the price mechanism belongs to economic associations – modern integrated enterprises that conform to the present dimensions of the market for the means of production. On the one hand, as large producers and customers, these associations have a broader economic base for developing permanent direct relations and for exerting greater influence on the entire price formation process. On the other hand, they possess the economic conditions for influencing production through the system of contractual and economically substantiated accounting prices...

The producer dictates the price... and frequently uses the existing shortage for a given group or type of resources to bring pressure to bear on the customer”.

(V. Budagarin: “The Price Mechanism and Circulation of the Means of Production”, in: “Nauchnye doklady vysshei shkoly: Ekonomicheskie nauki” (Scientific Reports of Higher Schools: Economic Science), No. 11, 1971, in: “Problems of Economics”, Volume 15, No. 3; July 1972; p. 81-82, 83).

“Under new guidelines issued yesterday, coffee rose from 4 roubles a pound to 20 roubles (& pound; 6.75), and petrol prices doubled, from 30 pence a gallon to 70 pence...

Repair and servicing of private motor cars jumped 30% and chocolate increased an average 30%”.

(“Coffee in Moscow”, in: “The Guardian”, March 2nd., 1978; p. 9).

Furthermore, as in orthodox capitalist countries, Soviet monopolies frequently use their control of production of a particular

commodity to create **artificial shortages** for the purpose of inflating their prices and profits:

“Certain forms of the existing system of distribution of the means of production frequently lead to an artificial shortage”.

(N. Fedorenko: “Current Tasks of Economic Science”, in: “Voprosy ekonomiki” (Problems of Economics), No. 2, 1974, in: “Problems of Economics”, Volume 17, No. 8; December 1974; p. 24).

“With coffee prices up fivefold, suppliers released rare stocks into the store”.

(“Coffee in Moscow”, in: “The Guardian”, March 2nd., 1978; p. 9).

As a result of all these factors, Soviet monopolies have succeeded in **significantly raising their rates of profit:**

“The Sigma association in the instrument-making industry drew up for 1967 a plan ensuring an increase in... profit by 34.8%. The level of profitability was set at 47.3% as against 33.7% attained in 1966”.

(N.Y. Drogichinsky: *ibid.*; p. 191-2).

“The ‘Elektrosila’ association in Leningrad in the 1966-1969 period... increased... profits by 110%”.

(B. Gubin: *ibid.*; p. 108).

Contemporary Soviet sociologists recognise that in orthodox capitalist countries, management personnel benefit from the above-average profits reaped by monopolies in the form of “enormous” salaries and bonuses:

“Executives... reap a sizeable share of the monopoly profits in the form of enormous salaries and bonuses”.

(N. Bogomolova: “Human Relations’ Doctrine: Ideological Weapon of the Monopolies”; Moscow; 1973; p. 55).

But in the Soviet Union too, management personnel in “top category” enterprises benefit from the monopoly position of these, not only by higher bonuses, but also by **higher salaries**:

“Higher salaries are set for executive, engineering and technical personnel working in enterprises in the top category”.

(Y.L. Manevich: “Wages Systems”, in: “The Soviet Planned Economy”; Moscow, 1974; p. 252).

32: A “Superfluity of Capital”

Lenin held that a monopoly capitalist country tended to accumulate a **“superfluity of capital”**:

“An enormous ‘superfluity of capital’ has accumulated in the advanced countries”.

(V.I. Lenin: “Imperialism, the Highest Stage of Capitalism”, in: “Selected Works”, Volume 5; London, 1935; p. 56).

Since the “economic reform”, the **average rate of profit** (that is, the total amount of profit as a percentage of the value of fixed and circulating productive assets) has increased significantly: from **16.7%** in 1961-5 to **21.3%** in 1966-70.

(N.Y. Drogichinsky: “The Economic Reform in Action”, in: “Soviet Economic Reform: Progress and Problems”; Moscow, 1972; p. 208).

If this profit is taken as percentage of the value of **fixed productive assets only**, the increase is **even more striking**:

<u>Year</u>	<u>Profit (%)</u>
1965:	30.1%
1966:	35.3%
1967:	39.0%
1968:	40.5%
1969:	43.8%

(N.Y. Drogichinsky: *ibid.*; p. 204).

The **average profit per worker** increased as follows:

<u>Year</u>	<u>Average Profit per worker</u>
1965:	1,485 rubles
1966:	1,773 rubles
1967:	2,027 rubles
1968:	2,217 rubles
1969:	2,549 rubles

(N.Y. Drogichinsky: *ibid.*; p. 204).

In the period 1971-75 **total profit** amounted to

“nearly 500,000 million rubles”

(A.N. Kosygin: "Guidelines for the Development of the National Economy of the USSR for 1976-1980", 25th. Congress CPSU; Moscow; 1976; p. 41)

an **increase** over the period 1966-70 of

"...50%.

(A.N. Kosygin: *ibid.*; p. 41).

By 1972, as has been shown in the section entitled "Investment", the larger enterprises were **self-financing**. Many, indeed, had accumulated **a surplus of funds over and above this**, from which they were

"...entitled to offer loans to Gosbank for a certain interest fixed by the government".

(E. Manevich: "Ways of Improving the Utilisation of Manpower", in: "Voprosy ekonomiki" (Problems of Economics), No. 12, 1973, in: "Problems of Economics", Volume 17, No. 2; June 1974; p. 11).

Clearly, the contemporary Soviet Union has, in line with Lenin's analysis, accumulated a **"superfluity of capital"**.

33: The Exploitation of the Working Class

As has been said, since the “economic reform” the management personnel of Soviet industry constitute, in Marxist- Leninist terms, a new capitalist class, in that they have effective ownership of the principal means of production.

But, according to Marxism-Leninism, a capitalist class is **an exploiting class, a class which exploits the working class.**

The question remains: does the Soviet capitalist class exploit the working class? Does it live, partly or wholly, on the labour of the working class?

Contemporary Soviet economists and politicians strongly **deny** this:

“Socialist society (meaning contemporary Soviet society – WBB).... has no exploiting classes... whose income is derived from appropriating the results of labour by the exploited classes”.

(K.N. Plotnikov: Introduction to “The Soviet Planned Economy”; Moscow; 1974; p. 9).

They maintain that the principle continues to operate

“...which determines the distribution of income according to the quantity and quality of work done”.

(Y.L. Manevich: “Wages Systems”, in: *ibid.*; p. 229).

although it is admitted that this principle

“...operates.. with many deviations”.

(Y.L. Manevich: *ibid.*; p. 229)

But, (as has been shown in Section 18: “The Distribution of Socialist Profit”) “deviations” involve the receipt by managerial personnel in Soviet industry of **bonuses which are up to 100 times those received by shop floor workers.** Such huge differentials can, by no stretch of the imagination, be reconciled with the principle of “the distribution of income according to quantity and quality of work done”. They represent, in Marxist-Leninist terminology, **the exploitation of the working class.**

A significant feature of this exploitation in the Soviet Union, as compared with that which according to Marxism- Leninism, occurs

in orthodox capitalist countries, is **the greater extent to which high political personnel participate in it.** This is illustrated by some extracts from a biography of Leonid Brezhnev, who holds the post of General Secretary of the Communist Party of the Soviet Union (and now also that of Head of state):

“If anything distinguished Brezhnev from the coterie of baggy-suited apparatchiki around Khrushchev, it was his sartorial trimness. Foy D. Kohler, a former US ambassador to the Soviet Union, used to say that Brezhnev ‘must have the best tailor in Moscow’...

Publicly he is a moraliser who exhorts people to ever greater achievements with finger-wagging monotony and orthodox Communist clichés. Behind the scenes he loves the good life; expensive clothes; gadgets; fast and ostentatious cars; thoroughbred horses; stiff drinks; spicy foods...; beautiful girls; loge seats at Moscow’s Dynamo or Lenin stadiums where he can watch his favourite soccer team; boar hunting; duck shooting and yachting – in other words, the perquisites of belonging to the upper classes of Soviet society. While I was in Moscow other members of the Politburo rode in Soviet-made ZILs and Chaikas, but Brezhnev flashed about in his Rolls-Royce. Subsequently he was seen in a Cadillac which Nixon gave him in 1972 and presumably he now drives about in the Lincoln Continental he got from the President in 1973 of the steel-blue Mercedes 450-SCL he received from Willy Brandt.

He is also vain. He preens himself before any mirror he passes, combing and smoothing down his wavy hair, brushing any dust or lint from the lapels of his expensive suits. He has the facial lines erased from his official portraits...

But no matter how charming he tries to be, his eyes often betray him... When he is not consciously attempting to impress, they are hard and icy...

He is conservative, prudent and cautious...

He is a manipulator of men and skilled at tuning the party instrument so that it hums to his score...

He behaves like a 'chairman of the board', albeit a chairman whose power is virtually unlimited.

Today his team in Moscow is appropriately called the Dnieper Mafia. It is a clique of powerful politicians, apparatchiki, aides, advisers and friends who started in politics, government and industry with and under Brezhnev in Dneprodzerzhinsk, Dnepropetrovsk and Zaporozhe in the 1930s and 1940s.

Today these men... assure him his working majority in the Politburo, give him his strength in the Central Committee, fill key positions on his personal staff, influence his views and policies, serve as his watchdogs in government administration, control the police, the KGB and party apparatus. It is a formidable list of the most important men in the Soviet Union....

Even more important, perhaps, than the Dnieper Mafia is Brezhnev's solid power base in the Soviet military establishment...

His signature next to Nixon's on the strategic arms limitation (SALT) treaty set a precedent in international law; it was the first time that an agreement between two nations had been signed by one man in his capacity as party leader...

In reality, Brezhnev's signature on the treaty merely underlines what has become apparent in recent years. He is the new tsar of the Kremlin, title or no title.

This build-up began in early 1970. In March of that year, unaccompanied by other Politburo members or senior government officials except for Defence Minister Grechko, Brezhnev journeyed to Minsk to review the Soviet Army's spring manoeuvres, an act that cast him in the role of su-

preme commander.

In June he set a noteworthy precedent by attending a meeting of the Council of Ministers, of which he is not even a member but whose chairman is Kosygin, and delivered what 'Pravda' called a 'major speech'...

In February 1971, when the draft of the current five-year plan was published, the Central Committee decree approving it was signed by Brezhnev alone...

The most persuasive evidence of Brezhnev's real power was provided by the 24th. Party Congress in April 1971. He spoke for six hours.... and every minute of it was telecast to the nation...

At the very moment Kosygin began to speak in the Kremlin's cavernous Palace of Congresses, Soviet television started re-broadcasting Brezhnev's report in its entirety...

At the 24th. Congress he was eulogised and panegyrised by a succession of delegates who lauded his 'tireless activity and constant concern for the welfare of the people' and proclaimed that his six-hour speech had brought 'tears of joy and pride' to their eyes...

At first sight the Soviet political system strikes most observers as an alien, unfathomable labyrinth that defies comparison with anything in the West. In many ways it is, but there is one possible analogy: New York's Tammany Hall.

At its height, Tammany represented... a system of political control centring around a single powerful figure – the boss – and a complex organisation of lesser figures – the machine –. To obtain some idea of the Soviet system one should imagine a 'super Tammany' with political monopoly exercising virtually unchallenged control of the press, the police, the economy, the military, the judiciary, even the cultural establishment.

Leonid Ilyich Brezhnev is the Soviet 'boss' today. He got where he is through patronage, in-

trigue, manipulation, manoeuvring and political influence peddling...

The heart of his political machine is the Dnieper mafia...

Brezhnev's political machine is undoubtedly a precision instrument....

Leonid Ilyich Brezhnev... is omnipresent. His portrait is on every wall of nearly every government and party office from Brest-Litovsk to Vladivostok. It is held aloft, icon like, by thousands of marchers each 1 May and 7 November. It hangs in super-dimensional form from the facades of public buildings on important state occasions and holidays. His name appears in 'Pravda', 'Izvestia' and countless other Soviet newspapers every day. It is mentioned on radio and television several times daily. It appears in headlines and has become a household name around the globe. His speeches are mandatory reading for millions. His books stand on the shelves of all libraries in the USSR....

For half of their married life they (the Brezhnevs – WBB) have lived in the same apartment house – reserved for high-ranking party functionaries. By Moscow standards it is a posh neighbourhood...

It would be an idyllic picture of upper-middle-class Soviet life were it not marred by the problems of so many upper-middle-class apparatchik families: the un-Soviet like airs of the children.

Next to affairs of State and Party, Galina (Brezhnev's daughter – WBB) has been Brezhnev's greatest problem. Her penchant for men from the circus and her romantic escapades were the primary reason why her daughter Viktoria lived not with her but with Brezhnev... Motherhood is not her thing. By comparison, her brother Yuri, 40, is a paragon of good behaviour... On a recent trip to Paris, in January 1972, he made news of his own by going to the Crazy Horse Saloon, the French capital's best-known and most expensive

strip-tease club and allegedly paying the head waiter a \$100 tip...

Leonid Brezhnev has been a member of the elite since 1931, and he is now at its apex. Government dachas and limousines for his private use, servants, Black Sea vacation villas and, above all, the right to buy in special Central Committee and Kremlin stores where premium Soviet-made and the finest imported merchandise is available at cost and below – these have been his privileges for nearly two decades. He takes them for granted. Though he also denies them...

If Brezhnev even has a salary, then it is probably not more than 1,000 rubles (\$1,350) per month – less than what he was earning as a lieutenant-general – which is approximately eight times the average monthly wage (122 rubles) of a skilled industrial or white collar worker. But salary is not the issue, for like all other members of the Politburo and the Secretariat, Brezhnev is entitled to an ‘open account’ at the State Bank from which he may draw and spend as much as he wishes, for anything he pleases.

Naturally, he has a flat-roofed, California style bungalow with fire place, swimming-pool and patio in the Politburo compound at Kolchuga, a village 18 miles west of the centre of Moscow. A restricted area, it is surrounded, like most of the dachas of the elite, by a ten-foot-high wooden fence and a small army of grim-looking uniformed police and security men who guard the access roads... By Soviet standards it is opulent. So incidentally is Brezhnev’s Kutovoski Avenue apartment...

His fleet of automobiles is legendary, but in addition to those he has a whole park of Kremlin and Central Committee limousines, including foreign-made ones, from which to choose. And what was it he told Willy Brand? Oh yes, he has another, bigger yacht than the one in which they

cruised off Oreanda...

A Kremlin physician measures the water temperature before Brezhnev takes a dip in the Black Sea...

The fact is that Communism in the Soviet Union has given birth to a new upper class which enjoys and guards its privileges just as jealously as the old one. It is very much a hierarchical system in which each step up the ladder brings with it greater and additional perquisites...

He (Brezhnev – WBB) is neither an intellectual nor culturally inclined...

He likes technical things. The intricate push-button and telephone panel sunk into the top of his Kremlin office desk, heatable swimming pools, automatically operated sliding doors – those are the things he shows visitors with pride...

The sport about which he is most enthusiastic.. is hunting. He claims to have shot everything from hares around Moscow to bears in Kazakhstan. His favourite area is a Savidovo... There the Politburo maintains a private 140-square mile game preserve with hunting lodges... Brezhnev also claims to be a conservationist.

Leonid Brezhnev is a conservative”.

(J. Dornberg: “Brezhnev: The Masks of Power”; London; 1974; p. 15, 18-19, 20, 21, 23, 24, 31-2, 274, 275, 283, 287, 288, 289, 290, 291, 292, 294).

The unique feature of **open (i.e., unlimited) bank accounts** for the higher echelons of Soviet managerial personnel (to which Dornberg refers in the above-quoted passage), although not officially admitted, has been **confirmed** by other investigators:

“Nachalniks (i.e., administrative personnel – WBB).. are put on what is called an ‘open bank account’, which means that all their needs and those of their immediate family are freely supplied... by the state”.

(Z. Katz: “Patterns of Social Stratification in the USSR”; Cambridge (USA); 1972; p. 82).

34: The Market Problem

Engels held that, by reason of the anarchic character of production in a capitalist society and the fact that, in such a society, the workers receive in wages the money equivalent of only a part of the value they produce, every capitalist society experiences a market problem:

“The extension of the markets (in capitalist society – WBB) cannot keep pace with the extension of production”.

(F. Engels: “Herr Eugen Dühring’s Revolution in Science”; Moscow; 1959; p. 379).

“While the productive power (in a capitalist society – WBB) increases in a geometric, the extension of markets proceeds at best in an arithmetic ratio”.

(F. Engels: Preface to the English Edition of: K. Marx: “Capital”, Volume 1; London; 1974; p. 16, 17).

Contemporary Soviet economists admit that the Soviet economy is now experiencing such a market problem:

“The market problem exists not only for consumer goods but also for the means of production”.

(“Pravda” (Truth). June 23rd., 1965, cited in: J.L. Felker: “Soviet Economic Controversies”; Cambridge (USA); 1966; p. 92).

One attempt to alleviate this market problem has been the great extension of credit sales:

“The sale of goods on a deferred-payment basis... exerts a considerable positive impact on the expansion of production and sale of consumer goods... Credit sales to the public... are acquiring more and more significance for the development of retail trade in our country...”

In the total retail trade of non-food commodities, the share of goods sold on an instalment basis is increasing: from 1.8% in 1960 to 5.7% in 1967”.

(V. Ilin & B. Koriagin: "The Sale of Goods to the Public on Credit", in: "Nauchnye vysshei doklady shkoly: Ekonomicheskie nauki" (Scientific Reports of Higher Schools: Economic Science), No. 7, 1969, in: "Problems of Economics", Volume 12, No. 8; December 1969; p. 68, 69).

Naturally, **interest charges** are paid on the credit granted, although at present these are not high – 1% over 6 months, 2% over 12 months.(V. Ilin & B. Koriagin: *ibid.*; p. 72).

Since it is necessary for these economists to present the Soviet economy as "socialist", they are, therefore, compelled to put forward the view that the market problem, the need to seek foreign markets, is one which is **common to both capitalist and socialist economies**:

"A situation always emerges when the production of some article... exceeds the purchasing power or the physiological and spiritual requirements of the population of the nation, no matter how large it is...

The development of production evolves the need for the export of output...

The need for exports always arises in both Department (that producing means of production and that producing consumer goods – WBB) when the volume of production exceeds the limits of the country's requirements. The quicker production outstrips the population growth, the greater becomes the need for sales on foreign markets...

The growth of production leads to the greater requirement for foreign markets".

(M. Senin: "Socialist Integration"; Moscow; 1973; p. 108, 117, 119).

In 1967 the **export quota** (i.e., the volume of exports expressed as a percentage of national income) of the Soviet Union was **3.9%** (M. Senin: *ibid.*; p. 87).

Contemporary Soviet economists and politicians emphasise that this export quota must be **increased**, by greater concentration on production for export:

“Soviet scientific and economic thought... increasingly focuses attention on the idea of concentrating export production , of assigning it a special place in the economy”.

(M. Senin: *ibid.*; p. 136).

“We intend to expand the country’s export potential systematically.... Since foreign trade has become a major branch of the national economy the problem arises of setting up a number of export-oriented industries to meet the specific requirements of foreign markets”

(A.N. Kosygin: “Guidelines for the Development of the National Economy of the USSR for 1976-1980”, 25th. Congress CPSU; Moscow; 1976; p. 45).

But the Soviet Union, they say, has a specific problem also in

“...its export pattern, a problem specific to the USSR. The latter has emerged because at present raw and other materials, fuel and foodstuffs (export items of little effectiveness) account for a large share of the Soviet exports”.

(M. Senin: *ibid.*; p. 136).

In fact, in 1967 fuel, raw and other materials, and foodstuffs constituted 62.5% of Soviet exports. (M. Senin: *ibid.*; p. 99).

The low “effectiveness” of these items is to be found in the fact that their production for export is **significantly less profitable than that of manufactured goods:**

“The problem of the burdensome-ness of the export of raw materials... emerged because in the export field the operation of the extractive industry is less profitable than that of the manufacturing industry... The difference is due to the fact that manufacture is far ahead of extraction as regard the effectiveness of investments An exporter is in a less favourable position.. because he does not primarily export products of the manufacturing industry”. (M. Senin: *ibid.*; p. 242-3, 247).

Naturally, therefore, contemporary Soviet economists urge that steps be taken to **change the pattern** of Soviet exports in the direction of manufactured goods:

“The problem of burdensomeness caused by the relatively low effectiveness of the export of products of the extractive industry and agriculture is inevitably alleviated as the ratio between products of the extractive industry and products of the manufacturing industry changes in favour of the latter”.
(M. Senin: *ibid.*; p. 247).

“The high growth rates in engineering and other manufacturing industries and measures to raise the technical level and product quality create prerequisites for increasing the share of the manufacturing industries’ produce in Soviet exports”.
 (“Soviet Economy Forges Ahead: Ninth Five-Year Plan: 1971-1975”; Moscow; 1973; p. 100).

The market problem has, of course, important effects on **Soviet foreign policy**, but space does not permit treatment of this question here.

35: The Class Structure of Contemporary Soviet Society

According to Marxism-Leninism, there are three social classes in a typical capitalist society:

1) the **capitalist class or bourgeoisie**, the members of which control the basic means of production and so are able to exploit – that is, to live partly or wholly on the labour of – the working class;

2) the **petty bourgeoisie**, the members of which control their means of production, predominantly in agriculture, and live primarily by their own work, without exploitation; and

3) the **working class** or **proletariat**, the members of which control no means of production and so are compelled to live by sell-

ing their labour power to the capitalists, who are exploited by the capitalist class.

The capitalist class and the working class form the two **basic classes of society** and there is a **conflict of interest** between them.

The preceding analysis has demonstrated that, on the basis of Marxism-Leninism, to which the present Soviet leaders continue to claim adherence, **the contemporary Soviet Union has the class structure of a typical capitalist society.**

36: The Role of the Communist Party of the Soviet Union

The Communist Party of the Soviet Union is a political party which is officially established as “the leading and guiding force” of Soviet society:

“The Communist Party... has... extended its guiding influence to all spheres of social life... The period of full-scale communist construction is characterised by a further **enhancement of the role and importance of the Communist Party** as the leading and guiding force of Soviet society”.

(Programme of the Communist Party of the Soviet Union; Moscow; 1961; p. 122-3).

But, according to Marxism-Leninism, a political party is an organisation which represents **the political interests of a social class**.

During the period in which a socialist society existed in the Soviet Union, and prior to this period, the Communist Party was defined as an organisation which represented the political interests of the **working class**:

“The Party is the General Staff of the proletariat... The Party is the organised detachment of the working class...

The Party is the highest form of class organisation of the proletariat...

The Party is an instrument of the dictatorship of the proletariat”.

(J.V. Stalin; “The Foundations of Leninism”, in: “Works”, Volume 6; Moscow; 1953; p. 179, 181, 186, 188-9).

In 1961, however, the leaders of the CPSU declared that the party was **no longer** a political organisation which represented the interests of the working class, but one which represented the interests of the **“entire people”**:

“Our Marxist-Leninist Party, which arose as a party of the working class, has become the Party of the entire people”.

(N.S. Khrushchev: Report on the Programme of the Communist Party of the Soviet Union, 22nd. Congress CPSU; London; 1961; p. 90).

But in a society which contains classes with antagonistic interests – and, as has been shown, the contemporary Soviet Union is such a society – it is **impossible** for a **single** political party to represent the interests of the “entire people” and any claim that such a party does so must be dismissed as **sheer demagoguery**.

What class of Soviet society, therefore, has in reality its political interests represented by the CPSU?

It is admitted by the leaders of the CPSU that the party no longer specifically represents the interests of the working class.

Can it, perhaps, represent the interests of **the petty bourgeoisie**, which in the Soviet Union is composed principally of collective farmers and a relatively small number of self-employed professional, scientific and artistic workers?

But, according to Marxism-Leninism, the petty bourgeoisie, as an intermediate class between the decisive classes in society – the working class and the capitalist class – is **incapable** of pursuing an independent political policy; it is capable only of following one or other of the two decisive classes, of vacillating between them:

“It is a truth long known to every Marxist that in every capitalist society the only **decisive** forces are the proletariat and the bourgeoisie, while all social elements occupying a position midway between these classes and coming within the economic category of the petty bourgeoisie inevitably vacillate between these decisive forces”. (V.I. Lenin: “Valuable Admissions By Pitirim Sorokin”, in “Selected Works”, Volume 8; London; 1943; p. 145).

Thus, on the basis of Marxism-Leninism, to which the present Soviet leaders continue to claim adherence, **the CPSU is a political party which in fact represents the interests of the Soviet capitalist class**.

37: The Character of the Soviet State

According to Marxism-Leninism, a state is essentially **a machinery of force by which one social class rules over the rest of the people**:

“The state is an organ of class rule... A standing army and police are the chief instruments of state power”.

(V.I. Lenin: “The State and Revolution”, in: “Selected Works”, Volume 7; London; 1946; p. 9, 11).

The Soviet state established in Russia by means of the revolution of November 1917, was officially described as **a machinery of force in the hands of the working class, as “the dictatorship of the proletariat”**:

“The Soviets are the Russian form of the proletarian dictatorship”.

(V.I. Lenin: “The Proletarian Revolution and the Renegade Kautsky”, in: “Selected Works”, Volume 7; London; 1946; p. 145).

In 1961, however the leaders of the CPSU declared that the Soviet state was **no longer** a machinery of force by which the working class ruled over the rest of the people, was no longer the dictatorship of the proletariat, but had become an organ representing the interests of **the “entire people”**:

“In our country, for the first time in history, a State has taken shape which is not a dictatorship of any one class, but an instrument of society as a whole, of the entire people... The dictatorship of the proletariat is no longer necessary”.

(N.S. Khrushchev: Report on the Programme of the Communist Party of the Soviet Union, 22nd. Congress CPSU; London; 1961; p. 57, 58).

But, according to Marxism-Leninism, in a society which contains classes which antagonistic interests – and, as has been demonstrated, the contemporary Soviet Union is such a society – the state **can only be** the machinery of rule of the dominant social class, and any claim that, in such circumstances, the state represents the inter-

ests of the “entire people”, must be dismissed as mere **demagogu**:

“We cannot speak of ‘pure democracy’ so long as different **classes** exist; we can only speak of **class** democracy”.

(V.I. Lenin: “The Proletarian Revolution and the Renegade Kautsky”, in: “Selected Works”, Volume 7; London; 1946; p. 129).

“The bourgeoisie finds it advantageous and necessary to conceal the bourgeois character of modern democracy from the people and to depict it as democracy in general, or as ‘pure democracy’...

The bourgeoisie is obliged to be hypocritical and to describe the (**bourgeois**) democratic government as ‘popular government’, or democracy in general or pure democracy, when as a matter of fact it is the dictatorship of the bourgeoisie, the dictatorship of the exploiters over the mass of the toilers”.

(V.I. Lenin: “Democracy’ and Dictatorship”, in: *ibid.*; p. 219, 220).

What class of Soviet society, therefore, has in reality its machinery of rule in the Soviet state?

It is admitted by the leaders of the CPSU that the state is no longer the machinery of rule of the working class, and it has been shown in the previous section that it cannot be the machinery of rule of the petty bourgeoisie.

Thus, on the basis of Marxism-Leninism the Soviet state can be the machinery of rule only of **the new capitalist class**.

According to Lenin, however, monopoly capitalism – in which the economic life of society is dominated by a relatively small number of monopoly capitalists – inevitably leads into **state monopoly-capitalism**, in which the state ceases to be the machinery of rule of the capitalist class as a whole and becomes that of the most powerful groups of monopoly capitalists, and in which the intervention of the state is extended into every facet of social life:

“In... state-monopoly capitalism the monstrous oppression of the mass of the toilers by the state –

which is becoming merged more and more with the all-powerful capitalist combines – - is becoming ever more monstrous”.

(V.I. Lenin: Preface to the First Edition of “The State and Revolution”, in: *ibid.*; p. 5).

“Imperialism – ...the era of the transformation of monopoly capitalism into state-monopoly capitalism – has particularly witnessed an unprecedented strengthening of the ‘state machine’ and an unprecedented growth of its bureaucratic and military apparatus, in connection with the increase in repressive measures against the proletariat”.

(V.I. Lenin: “The State and Revolution”, in: *ibid.*; p. 32).

Clearly, in Marxist-Leninist terminology capitalism in the Soviet Union is **state-monopoly capitalism**, so that the state is the machinery of rule, not of the capitalist class as a whole, but of **the most powerful monopoly capitalist groups**.

This was, in fact, admitted by Prime Minister **Aleksei Kosygin** when, announcing the restoration of the industrial Ministries which had been abolished under the Khrushchev regime, he described the change in character of the functions of the new Ministries as compared with the old. The new Ministries would **“rely on” the trusts, firms and combines** in their respective fields, and would **“hand over”** many operative functions to them; further, a main task of the new Ministries would be to **“render practical assistance” to these trusts, firms and combines** so as to improve their “cost accounting”, i.e., their profits:

“It may seem, at first glance, that a mere return to the former Ministries is being suggested. To think so, however, means to disregard a number of new factors, and to make a mistake. The new Ministries will work in entirely different conditions, under which the functions of the administrative management of industry are combined with a considerably greater application of cost-accounting methods and economic incentives, and the economic rights and the initiative of enterprises are substantially ex-

tended.

Within industries a network of cost-accounting amalgamations is being set up and they will exercise direct management of their respective enterprises... The Ministries will rely in their work on the cost accounting amalgamations, handing over many operative functions to them... Emphasis will be placed... on rendering practical assistance to enterprises and amalgamations in the improvement of their work and in the consistent implementation of complete cost accounting”.

(A.N. Kosygin: “On Improving Industrial Management, Perfecting Planning and Enhancing Economic Incentives in Industrial Production”, in: “Izvestia” (News), September 28th., 1965, in: ME. Sharpe (Ed.): “Planning, Profit and Incentives in the USSR”, Volume 2; New York; 1966; p. 37-8).

In the present-day Soviet Union, under the Brezhnev regime, the most powerful monopoly capitalist groups are those which dominate the Soviet state apparatus, are those **of the dominant Russian nation involved in heavy industry.**

Furthermore, the Soviet state, the state of Soviet monopoly capital, is **not a “parliamentary democratic”** type of state such as, according to Marxist-Leninist analysis, exists in Britain at the present time.

Within “parliamentary democracy” the legal right exists for the formation of a political party aiming to transform the whole structure of society; and the legal right exists for that party to hold public meetings and demonstrations, to publish journals and leaflets, to contest elections, and so on.

In the contemporary Soviet Union, **such rights do not exist.** The Communist Party of the Soviet Union – which, on the basis of Marxism-Leninism, represents, as has been shown, the political interests of Soviet monopoly capital – is the sole legal political party and functions, as has been said, as “the leading and guiding force in Soviet society”.

On the basis of Marxism-Leninism, therefore, the contemporary Soviet state – despite its trappings of red flags – is **a fascist-type state of a new type,** in which the contemporary Communist Party

functions essentially as did the fascist parties in Fascist Italy, Nazi Germany and Falangist Spain.

The fascist-type character of the contemporary Soviet state is reflected not only in its official sponsorship of that typically fascist divisive manoeuvre, **racism** (discussed in Section 20: Anti-Semitism), but also in the introduction of such monstrous forms of repression as the incarceration of “dissidents” in psychiatric hospitals. The voluminous evidence concerning this practice is accepted as valid by Amnesty International:

“On the basis of available documentary evidence, Amnesty International accepts as fact the general allegation that numerous Soviet citizens have been confined to psychiatric hospital as a direct result of their political or religious beliefs and with no medical justification”.

(Amnesty International: “Prisoners of Conscience in the USSR: Their Treatment and Conditions”; London; 1975; p. 104).

On October 25th., 1975, “**L’Humanite**” (Humanity) organ of the **French Communist Party**, condemned the practice, and on January 4th., 1976, “**Marxism Today**” carried an article by **John Gollan**, former General Secretary of the **British Communist Party**, denouncing it in similar terms.

(“Keesing’s Contemporary Archives”, Volume 22; 1976; p. 27553).

Soviet psychiatrists who have refused to co-operate in the above practice have themselves been imprisoned:

“Seven Soviet psychiatrists have rebelled against a demand by the State that they collaborate in the imprisonment of dissidents in their hospitals, according to Amnesty International. Two of the psychiatrists have already been imprisoned as a result. Amnesty International said yesterday it had received documents smuggled from Moscow confirming the continued political abuse of psychiatry in the Soviet Union and the persecution of Russians trying to expose that abuse...”

One of these documents is an open letter, signed by 43 workers, alleging 14 occasions since January 1977 in which workers, complaining against their foremen and managers, have been sent to psychiatric hospitals”.

(“Russian Psychiatrists in Revolt”, in: “The Guardian”, March 7th., 1978; p. 7).

In Soviet **corrective labour colonies and prison**, conditions are similar to those, which existed in fascist states. Even the official Corrective Labour Code admits **the use of starvation** as a punishment for prisoners who do not “observe the demands of the regime”:

“The everyday material maintenance of convicted persons who observe the demands to the regime is carried out within the physiologically necessary limits... Soviet corrective labour legislation to a certain extent utilises the daily material maintenance of prisoners as a means of gaining the goals established in Article 20 of the Fundamentals of Corrective Labour Legislation of the USSR and Union Republics”.

(“Ispravitelno Trudovoye Pravo” (Corrective Labour Code); Moscow; 1971; p. 323-4; in: Amnesty International: *ibid.*; p. 39).

38: CONCLUSION

The society existing in the Soviet Union since the “economic reforms” of 1965-66 has been analysed on the basis of Marxism-Leninism, to which the Soviet leaders continue to claim adherence, and relying, with few exceptions, on official Soviet data.

The conclusion is that this society is, in Marxist-Leninist terminology, **a monopoly capitalist** society, in which a new capitalist class exploits the working class. In this society the Communist Party functions as a fascist-type party within a fascist-type state. The conclusion is that the trappings of “socialism” merely conceal the real character of Soviet society.

Carrying forward this analysis on the basis of Marxism-Leninism, the conclusion emerges that **the overthrow of Soviet capitalism by the working class is inevitable**:

“The overthrow of the yoke of capitalism.. will be achieved in all countries of the world”.

(V.I. Lenin: “The Second Congress of the Communist International”, in: “Selected Works”, Volume 10; London; 1946; p. 161).

That this will require a new “October Revolution”:

“The dictatorship of the proletariat cannot arise as the result of the peaceful development of bourgeois society...; it can arise only as the result of the smashing of the bourgeois state machine, the bourgeois army, the bourgeois bureaucratic apparatus, the bourgeois police...”

In other words, the law of violent proletarian revolution, the law of the smashing of the bourgeois state machine as a preliminary condition for such a revolution, is an inevitable law of the revolutionary movement in the imperialist countries of the world”.

(J.V. Stalin: “The Foundations of Leninism”, in: “Works”, Volume 6; Moscow; 1953; p. 119, 121).

which, in turn, is based on

“... the necessity for a new party, a militant party, a

revolutionary party, one bold enough to lead the proletariat in the struggle for power...

Without such a party it is useless even to think of overthrowing imperialism, of achieving the dictatorship of the proletariat".(J.V. Stalin: *ibid.*; p. 177).

APPENDIX ONE

(See Section 26: National Discrimination).

**Table 1: Persons Employed
in Industry per 1,000 Inhabitants**

Estonia	165
Latvia	161
Russia	147
USSR	122
Ukraine	118
Lithuania	117
Armenia	101
Byelorussia	99
Georgia	76
Kazakhstan	69
Moldavia	62
Azerbaijan	60
Kirghizia	60
Uzbekistan	46
Tajikistan	43
Turkmenia	42

("Narodnoe khoziaistvo SSSR v 1967 godu" (The National Economy of the USSR in the Year 1967); Moscow; 1968; in: J.P. Cole: "A Geography of the USSR"; London; 1970; p. 163).

Table 2: Indices of National Income

Estonia	142
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Latvia	141
Russia	115
Lithuania	111
Ukraine	98
Byelorussia	88
Moldavia	81
Kazakhstan	77
Armenia	74
Georgia	67
Kirghizia	59
Uzbekistan	53
Azerbaijan	51
Tajikistan	47
Turkmenia	46

(“Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970); Moscow, 1971; in: V.N. Bandera & Z.L. Melnyk (Eds.): “The Soviet Economy in Regional Perspective”; New York, 1973’ p. 169).

**Table 3: Urban Livina Space
(1970)**

Latvia	9.7
Estonia	9.6
Georgia	8.5
Ukraine	8.3
Lithuania	7.9
Russia	7.7
USSR (average)	7.7
Byelorussia	7.5
Moldavia	7.1
Turkmenia	6.9
Kazakhstan	6.8
Armenia	6.7
Azerbaijan	6.5
Tajikistan	6.2

Kirghizia	6.2
Uzbekistan	5.7

(“Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970); Moscow; 1971; in: H.W. Morton: “What Have Soviet Leaders Done about the Housing Crisis?”, in: H.W. Morton & R.L. Tokes: “Soviet Politics and Society in the 1970s”; New York; 1974; p. 171).

Table 4: Average Monthly Wages (rubles) (1970)

Estonia	135.3
Turkmenia	128.0
Russia	126.1
Latvia	125.6
Armenia	122.0
USSR	122.0
Kazakhstan	121.0
Lithuania	119.0
Tajikistan	118.0
Ukraine	115.2
Uzbekistan	114.0
Azerbaijan	113.9
Kirghizia	110.4
Georgia	106.7
Byelorussia	102.4
Moldavia	102.0

(“Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970); Moscow; 1971; in: V.N. Bandera & Z.L. Melnyk (Eds): “The Soviet Economy in Regional Perspective”; New York; 1973; p. 174).

Table 5 : Average Deposits in Savings Banks (1970)
(in rubles per capita population)

Estonia	108.9
Russia	96.1
Latvia	85.5
USSR	80.8

Armenia	79.6
Georgia	78.1
Ukraine	76.2
Lithuania	58.9
Byelorussia	57.8
Kazakhstan	53.1
Kirghizia	45.0
Azerbaijan	40.7
Turkmenia	39.2
Tajikistan	40.7
Moldavia	33.2
Uzbekistan	31.3

(V. Borisov: "The Growth of Saving in the USSR", in: "Vestnik statistiki" (Journal of Statistics), No. 1, 1967: "Problems of economics", Volume 10, No. 5; September 1967; p. 43).

Table 6: Housing Space in Capital Cities (1970)
(square metres per capita)

Riga	(Latvia)	9.5
Tallinn	(Estonia)	9.4
Moscow	(Russia)	9.1
Kiev	(Ukraine)	8.8
Vilnius	(Lithuania)	8.1
USSR	(uban average)	7.7
Tbilisi	(Georgia)	7.6
Minsk	(Byelorussia)	7.4
Frunze	(Kirghizia)	7.4
Alma Ata	(Kazakhstan)	7.2
Kishinev	(Moldavia)	7.1
Baku	(Azerbaijan)	7.1
Ashkhabad	(Turkmenia)	6.7
Erevan	(Armenia)	6.5
Dushanbe	(Tajikistan)	6.2
Tashkent	(Uzbekistan)	5.6

("Narodnoe khoziaistvo SSSR v 1970 godu" (The National Economy of the USSR in the Year 1970); Moscow; 1971; in: V.N. Ban-

dera & Z.L. Melnyk (Eds.): “The Soviet Economy in Regional Perspective”; New York; 1973; p. 174).

Table 7: Hospital Beds (per 10,000 inhabitants) (1970)

Kazakhstan	118.3
Latvia	117.9
Russia	112.4
Estonia	110.2
USSR (average)	109.2
Ukraine	107.6
Kirghizia	106.2
Byelorussia	103.8
Lithuania	102.2
Turkmenia	101.8
Uzbekistan	101.8
Moldavia	99.1
Tajikistan	97.8
Azerbaijan	93.5
Georgia	91.0
Armenia	85.9

(“Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970); Moscow; 1971; in: .N. Bandera & Z.L. Melnyk (Eds.): “The Soviet Economy in Regional Perspective”; New York; 1973; p. 185).

Table 8: Doctors (1970)(per 10,000 inhabitants)

Georgia	36.2
Latvia	35.6
Estonia	33.1
Russia	29.0
Armenia	28.8
Ukraine	27.6
Lithuania	27.4
USSR (average)	27.5
Byelorussia	25.8
Azerbaijan	25.0
Kazakhstan	21.9
Turkmenia	21.4

Kirghizia	20.7
Moldavia	20.5
Uzbekistan	20.0
Tajikistan	15.9

(“Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970); Moscow; 1971; in: V.N. Bandera & Z.L. Melnyk (Eds.): “The Soviet Economy in Regional Perspective”; New York; 1973; p. 185).

Table 9: Investment in Housing Construction
(1970) (rubles per capita)

Estonia	76.4
Kazakhstan	68.9
Lithuania	65.7
Russia	62.3
Armenia	61.7
Moldavia	57.5
Latvia	57.0
USSR(average)	55.1
Turkmenia	54.0
Byelorussia	49.8
Uzbekistan	45.0
Kirghizia	44.6
Georgia	40.8
Ukraine	39.8
Tajikistan	39.5
Azerbaijan	31.0

(“Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970); Moscow; 1971; in: H.W. Morton: “What Have Soviet Leaders Done about the Housing Crisis?”, in: H.W. Morton and R.L. Tokes (Eds.): “Soviet Politics and Society in the 1970’s”; New York; 1974; p. 194).

Table 10: Housing Units Built (1970) (per 1,000 inhabitants)

Lithuania	12.0
Estonia	11.1

Armenia	10.6
Russia	10.1
Byelorussia	9.9
Kazakhstan	9.5
USSR (average)	9.4
Kirghizia	9.0
Latvia	8.9
Turkmenia	8.7
Ukraine	8.3
Moldavia	8.1
Uzbekistan	7.7
Tajikistan	7.6
Georgia	6.2
Azerbaijan	6.2

(“Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970”); Moscow; 1971; in: H.W. Morton: op. cit.; p. 195).

Table 11 Expenditure on General Education (1965) (in rubles per student)

Latvia	166.5
Estonia	165.9
Lithuania	157.3
Georgia	150.7
Byelorussia	147.9
Armenia	145.4
Tajikistan	139.6
Turkmenia	129.0
Ukraine	126.6
Azerbaijan	125.9
USSR (average)	125.4
Russia	122.8
Moldavia	120.1
Kirghizia	118.6
Uzbekistan	115.6

Kazakhstan	113.5
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(“Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970); Moscow; 1971; in: .N. Bandera & Z.L. Melnyk (Eds.): “The Soviet Economy in Regional Perspective”; New York; 1973; D. 171).

Table 12: Expenditure on Health Services (1965) (in rubles per capita)

Estonia	34.4
Latvia	30.7
Russia	28.7
USSR (average)	27.0
Kazakhstan	26.6
Lithuania	26.4
Georgia	25.9
Ukraine	25.3
Turkmenia	25.2
Byelorussia	24.7
Kirghizia	24.2
Moldavia	23.6
Armenia	23.0
Azerbaijan	22.6
Tajikistan	22.0
Uzbekistan	1.9

(“Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970); Moscow; 1971; in: V.N. Bandera & Z.L. Melnyk (Eds.): “The Soviet Economy in Regional Perspective”; New York; 1973; p. 171).

APPENDIX TWO

(See Section 26: National Discrimination).

Table 1: Average Annual Growth Rate of Industrial Productivity (1960-1970)

Latvia	3.8%
Estonia	3.7%
Byelorussia	3.0%
Georgia	2.8%
Kirghizia	2.6%
Lithuania	2.6%
Ukraine	2.4%
Russia	2.4%
USSR	2.4%
Armenia	1.5%
Kazakhstan	1.2%
Moldavia	1.1%
Azerbaijan	0.5%
Tajikistan	0.4%
Uzbekistan	0.1%
Turkmenia	-0.3%

(“Narodnoe khoziaistvo SSSR v 1960 godu” (The National Economy of the USSR in the Year 1960); Moscow; 1961; and “Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970); Moscow; 1971; in: V.N. Bandera & Z.L. Melnyk (Eds.): “The Soviet Economy in Regional Perspective”; New York; 1973; p. 157).

Table 2: Rate of growth of Per Capita : National Income (1960-70)

Lithuania	112%
Byelorussia	100%
Moldavia	87%
Latvia	84%

Estonia	82%
Russia	81%
Ukraine	77%
USSR	76%
Armenia	75%
Georgia	72%
Kazakhstan	70%
Kirghizia	63%
Tajikistan	50%
Uzbekistan	39%
Azerbaijan	25%
Turkmenia	21%

(“Narodnoe khoziaistvo SSSR v 1960 godu” (The National Economy of the USSR for the Year 1960); Moscow; 1961; and “Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR for the Year 1970); Moscow; 1971; in: V.N. Bandera & Z.L. Melnyk (Eds.): “The Soviet Economy in Regional Perspective”; New York; 1973; p. 169)).

Table 3: % Increase in Per Capita Living Space (1958-1970)

Russia	35.1%
USSR	32.8%
Ukraine	29.7%
Byelorussia	29.3%
Moldavia	29.1%
Kazakhstan	28.3%
Georgia	26.9%
Kirghizia	26.5%
Armenia	26.4%
Estonia	26.3%
Turkmenia	21.1%
Lithuania	19.7%
Azerbaijan	18.2%
Latvia	15.5%
Tajikistan	14.8%
Uzbekistan	9.6%

(“Narodnoe khoziaistvo SSSR v 1960 godu” (The National Economy of the USSR in the Year 1960); Moscow; 1961; and, “Narodnoe khoziaistvo SSSR v 1970 godu” (The National Economy of the USSR in the Year 1970); Moscow; 1971; in: H.W. Morton & R.L. Tokes (Eds.): “Soviet Politics and Society in the 1970’s”; New York; 1974; p. 171).

APPENDIX THREE:

The “Leningrad Affair”

In 1948-9, during Stalin’s lifetime, a serious attempt was made to initiate precisely the same kind of **“economic reform”** – one that would have led to the restoration of an essentially capitalist society in the Soviet Union – which was ultimately brought about under the Brezhnev regime.

Voznosensky’s Economic theses

The “economic reform” of 1948-9 was carried out on the theoretical inspiration, and under the leadership of **Nikolai Voznosensky** – a member of the Central Committee of the CPSU since 1939 and of its political bureau since 1947, who held the posts of Chairman of the State Planning Commission since 1937 and Deputy “Prime Minister” since 1939.

In 1947 there was published a book by Voznosensky entitled **“The War Economy of the USSR during the period of the Patriotic War”**, a feature of which was the author’s claim that the distribution of labour between the different branches of the Soviet economy “was” (meaning “should be”) determined by the **“law of value”** (meaning the profitability of individual enterprises and industries). Voznosensky therefore demanded that the prices of commodities should be **“market prices”**, based on their values or “prices of production” (the latter term being defined by Marx, in his analysis of capitalist economy, as cost of production plus an average profit). He therefore emphasised the need to enhance the role of **“cost accounting”** (accounting based on the profitability of individual enterprises and industries) in the organisation of production, together with that of **economic incentives** in the form of bonuses to the personnel of enterprises:

“The most elementary law governing the costs of production and distribution of goods is the law of value. In Socialist economy the law of value signifies the need to calculate and plan in terms of money the cost of production. The state plan in the Soviet economic system makes use of the law of value to set the necessary proportions in the production and distribution of social labour and the

social product The law of value operates not only in production, but also in the exchange of products....Prices in socialist economy too are nothing but the monetary expression of the value of the product, or its cost of production and, in the final analysis, of the quantity of socially necessary labour expended on its production The law of value operates also in the distribution of labour itself among the various branches of the Soviet Union's national economy The following distinguishing features must be noted as regards the planning and organisation of production at Soviet industrial enterprises during the war economy period...strict cost accounting, profit and loss accounting, and reduction of the costs of production. A highly important lever making for increased production is the creating, through a system of premiums (bonuses – WBB) of a personal incentive to raising output Scientific socialism...does not deny the significance in Socialist economy of the law of value, market prices, and profit and loss accounting As for profit and loss accounting in Soviet economy, not only does it not run counter to the Socialist system of economy, but serves as a substantial stimulus to the development of Socialist production, inasmuch as it contributes to growth of profits”.

(N. Voznosensky: “War Economy of the USSR in the Period of the Patriotic War”; Moscow; 1948; p. 116, 117, 118, 121, 138, 139).

Roy Medvedev testifies to the “popularity” of Voznosensky's book among a section of Soviet economists;

“Voznosensky's book....soon became popular amongst economists. Some of its theses began to be cited on the same level as theses from Stalin”.

(R. Medvedev: “Let History Judge”; London; 1972; p. 482).

Stalin's strong objections to Voznosensky's economic theses

were made public only more than four years' later, in 1952 – the significance of the delay will be discussed below – in his “**Economic Problems of Socialism in the USSR**”, a significant part of which was devoted to a refutation of these theses (though without naming Voznosensky as their author):

“It is sometimes asked whether the law of value exists and operates in our country, under the socialist system. Yes, it does exist and does operate. Wherever commodities and commodity production exist, there the law of value must also exist...Does this mean that....the law of value...is the regulator of production in our country...? No it does not. Actually, the sphere of operation of the law of value under our economic system is strictly limited and placed within definite bounds. Totally incorrect, too, is the assertion that under our present economic system...the law of value regulates the ‘proportions’ of labour distributed among the various branches of production.

If this were true, it would be incomprehensible why our light industries, which are the most profitable, are not being developed at the utmost, and why preference is given to our heavy industries, which are often less profitable, and sometimes altogether unprofitable.

If this were true, it would be incomprehensible why a number of our heavy industry plants which are still unprofitable...are not closed down, and why no light industry plants, which would certainly be profitable...are not opened.

If this were true, it would be incomprehensible why workers are not transferred from plants that are less profitable, but necessary to our national economy, to plants which are more profitable – in accordance with the law of value, which supposedly regulates the ‘proportions’ of labour distributed among the branches of production...

The law of value can be a regulator of production only under capitalism,....

If profitability is considered not from the standpoint of individual plants or industries, and not over a period of one year, but from the standpoint of the entire national economy and over a period of, say, ten or fifteen years, which is the only correct approach to the question, then the temporary and unstable profitability of some plants or industries is beneath all comparison with that higher form of stable and permanent profitability which we get from the operation of the law of balanced development of the national economy and from economic planning”.

(J. V. Stalin: “Economic Problems of the USSR”; Moscow, 1952; p. 23, 25, 27-9).

The Opposition Group Led by Voznosensky

But the controversy around Voznosensky’s economic theses was by no means merely an academic one since, using his authority as Chairman of the State Planning Commission, Voznosensky proceeded to initiate an “**economic reform**” designed to bring these theses into effect.

In taking this step, Voznosensky did not only have the public support of many leading **economists** – many of those who publicly supported his economic theses, such as Leontiev and Gatovsky, naturally played a prominent part later in supporting the theses of Liberman which paved the way for the precisely similar “economic reform” carried out under the Brezhnev regime. He was also assured of powerful support in the highest ranks of the Party and state apparatus, particularly in Leningrad. Among those **openly** associated with Voznosensky’s “economic reform” of 1948-9 were:

Aleksei Kuznetsov, who had been First Secretary of the Party in Leningrad from 1945 to 1946, when he was appointed a Secretary of the Central Committee;

Grigori Popov, First Secretary of the Party in Moscow and also a Secretary of the Central Committee;

Petr Popkov, who had succeeded Kuznetsov as First Secretary in Leningrad in 1946 and was also a member of the Presidium of the Supreme Soviet;

Mikhail Rodionov, “Prime Minister” of the Russian Republic;

Aleksei Voznosensky (Nikolai’s brother), who had been Rector

of Leningrad University for 1944-48, when he was appointed Minister of Education of the Russian Republic;

Ivan Goliakov, President of the Supreme Court; and

Colonel-General **Ivan Shikin**, Head of the Chief Political Directorate of the Soviet Army.

Among other prominent figures associated with Voznosensky who supported his economic theses more discreetly was:

Aleksei Kosygin, the present “Prime Minister” of the USSR, who had been Director of the Oktyabr Spinning Mill in Leningrad in 1937-8, “Mayor” of Leningrad in 1938-9, “Prime Minister” of the Russian Republic in 1943-6, Minister of Finance of the USSR in 1948, and Minister of Light Industry of the USSR from December 1948, and who had been a member of the Political Bureau of the CC of the Party since 1948.

“His (Voznosensky’s – WBB) ally in economic reform seems to have been Aleksei Kosygin, the present Chairman of the Soviet Council of Ministers”.
(M Kaser: “Comecon”; London; 1967; p. 23).

“A Russian defector who was in Leningrad at the time (1948-9 – WBB) and was in close contact with Kosygin during his visits to the city, reports that Kosygin became drunk at a birthday party he attended late one night and referred to Stalin as a ‘pockmarked bastard’, adding words to the effect that the Soviet Union could become a great country...if only the dictator could be removed. There is little reason to doubt this story”.

(M. Page: “The Day Khrushchev Fell”; New York; 1965; p. 186-7).

By this time, opposition views were being quite openly expressed in Party and State circles in Leningrad. This was demonstrated during a visit to the Soviet Union in January 1948 by a **Yugoslav delegation** headed by **Milovan Djilas**. This was two months before the Soviet government recalled its military and civilian experts from Yugoslavia, and four months before the Communist Party of Yugoslavia was expelled from the Communist Information Bureau for, among other things, pursuing a political line which “....can only lead to Yugoslavia’s degeneration into an ordi-

nary bourgeois republic, to the loss of its independence and to its transformation into a colony of the imperialist countries” .

(Communist Information Bureau: Resolution on Yugoslavia, June 1948, in: J. Klugmann: “From Trotsky to Tito”; London; 1951; p. 11).

Naturally, the reception of the Yugoslav delegation in Moscow was cool. It was, however, warmly received by Party and state circles in Leningrad:

“Djilas, Koca, Popovic and Vukmanovic expressed a wish to visit Leningrad. They were warmly welcomed there, given a villa and received by Popkov, the Secretary of the Regional Committee”.

(V. Dedijer: “Tito Speaks”; London; 1953; p. 321-2).

Djilas himself, describing the delegation’s visit to Leningrad, pays tribute to the “simple humanity” of the Party and state officials in that city, with whom he felt he could “very quickly arrive at a common political language”:

“The trip to Leningrad... refreshed us, and brought us some relief... Our encounter with Leningrad’s officials added human warmth to our admiration. They were all, to a man, simple, educated, hard-working people,... but they lived lonely lives... We got along with them easily and quickly... We observed that these men approached the life of their city and citizens in a simpler and more human manner than the officials in Moscow.

It seemed to me that I could very quickly arrive at a common political language with these people. Indeed, I was not surprised to hear two years later that these people, too, had failed to escape the mills of totalitarianism just because they dared to be men”.

(M. Djilas: “Conversations with Stalin”; Harmondsworth; 1963; p. 130-1).

The cordial relations between the Yugoslav delegation and the Party and State officials in Leningrad did not go unnoticed in Moscow:

“At the occasion of his last visit to the USSR, Comrade Djilas, while sojourning in Moscow, went for a couple of days to Leningrad, where he talked with the Soviet comrades Comrade Djilas has abstained from collecting data from these(leading – WBB) officials of the USSR, but he did so with the local officials of the Leningrad organisations.

What did Comrade Djilas do there, what data did he collect? We suppose he has not collected data there for the Anglo-American or the French Intelligence Services”.

(CC., CPSU; Letter to CC, CPY, May 4th., 1948, in: “The Correspondence between the CC of the CPY and the CC of the CPSU(B)”; Belgrade; 1948; p. 52).

The last paragraph quoted from this letter takes on a new significance when it is recalled that by 1949, the leaders of the Communist Party of Yugoslavia were accused of being, not merely counter-revolutionaries who aimed to restore capitalism in Yugoslavia, but active agents of the Western Powers, engaged in espionage and plotting within the socialist countries. The Cominform resolution on Yugoslavia of November 1949 thus referred explicitly to

“....the transformation of the Tito-Rankovic clique into a direct agency of imperialism”.

(Communist Information Bureau; Resolution on Yugoslavia, November 1949, in: J. Klugmann: *ibid.*; p. 112).

Of further political significance in connection with the “Leningrad Affair” is Sulzberger’s report of 1956 that:

“...Party leaders now confide that....Voznosensky and Kuznetsov... (were) in 1949... trying to establish a separate Communist organisation in the Russian Soviet Republic with headquarters in Leningrad instead of Moscow”.

(C. L. Sulzberger: “The Big Thaw”; New York; 1956; p. 47-8).

Voznosensky's "Economic Reform"

It is against this political background, as well as in conjunction with Voznosensky's economic theses, that must be seen the "economic reform" introduced by the State Planning Commission, headed by Voznosensky, which came into effect on January 1st, 1949. By this measure wholesale prices were "reorganised" to bring them into line with their values or "prices of production" (cost prices plus an average rate of profit). As a result:

"...the prices of many basic materials and freight charges increased to double or more".

(R. Conquest: "Power and Policy in the USSR"; London; 1961; 9. 105).

Some Western economists saw the significance of the "economic reform" at the time:

"The planning authorities in the Soviet Union have clearly...decided that... a functional use of the price mechanism is a necessary precondition to a sound and smoothly working economy".

(M. C. Kaser: "Soviet Planning and the Price Mechanism", in: "Economic Journal", Volume 60; March 1950; p. 91).

The Counter-Offensive

Some weeks after the introduction of Voznosensky's "economic reform", its opponents struck back.

On March 13th., 1949, it was announced that Nikolai Voznosensky had been "released" from his state post as Chairman of the State Planning Commission (being replaced by Maxim Saburov), and that **Mikhail Rodionov** had been released from his state post as "Prime Minister" of the RSFSR (being replaced by B. Chernousov).

On March 14th., 1949 it was announced that **Petr Popkov** had been "released" from his state post as member of the Presidium of the Supreme Soviet (being replaced by Vasily Andrianov). On March 15th., 1949, it was announced that **Ivan Goliakov** had been "released" from his state post as President of the Supreme Court (being replaced by Anatol Volin).

On July 15th., 1949, it was announced that **Aleksei Voznosens-**

sky had been “released” from his state post as Minister of Education of the RSFSR.

On January 15th., 1950, a decree of the Presidium of the Supreme Soviet **restored the death penalty** (abolished in May 1947) for treason and certain other crimes against the state.

And in two stages, on January 1st., and July 1st., 1950, the Voznosensky “economic reform” of 1949 was **nullified**.

This appears to have been the sum total of all that was published in the Soviet Union at the time concerning the counter-attack launched against the opposition groups headed by Voznosensky.

But in February/March 1949, **Aleksei Kuznetsov** was removed from the post of Secretary of the Central Committee of the Party; **Nikolai Voznosensky** was removed from membership of the Political Bureau of the CC; **Petr Popkov** was removed from the post of First Secretary of the Leningrad organisation of the Party; **Ivan Shikin** was removed from the post of Head of the Chief Political Directorate of the Soviet Army.

And in December 1949, **Grigori Popov** was removed from the posts of First Secretary of the Moscow organisation of the Party and Secretary of the CC of the Party (in both of which posts he was succeeded by Nikita Khrushchev).

In Leningrad most of the leading Party and state organs were restaffed. **Frol Kozlov** told the 19th. Congress of the CPSU in October 1952 that in that city

“....recently more than 2,000 persons...have been promoted to executive positions”.

(F. Kozlov: Speech at 19th. Congress, CPSU, in: “Pravda”, October 14th., 1952, in: R. Conquest: *ibid.*; p. 100).

By July 1949, Voznosensky had been **expelled** from the Party, since a resolution of the CC (unpublished at the time) dated July 13th., 1949 refers to him without the appellation “Comrade”.

Some members of the opposition group were transferred to minor posts for a time: Kuznetsov to be Secretary of the Far Eastern Bureau of the CC, Popov to a “responsible job in city construction”. Voznosensky, however, was not given such a post, and remained at home working on a new exposition of his economic views to be entitled **“The Political Economy of Communism”**

In November/December 1949, Voznosensky, his brother,

Kuznetsov, Popkov, Popov, Rodionov, Goliakov and Shikin were **arrested**, and in 1950 **tried** on charges which, in the case of Voznosensky himself, included the passing of secret papers of the State Planning Commission to a foreign state.

(V. Kolotov: Article in “Literaturnaya Gazeta” (Literary Gazette), November 30th., 1963, in: R. Medvedev: *ibid.*; p. 482).

Some of the defendants in the “Leningrad Affair” – including Nikolai Voznosensky, Kuznetsov, Popkov and Rodionov – were sentenced to death, and **executed** on September 30th., 1950. Others survived, to be released and “rehabilitated” by the post-Stalin leadership: Popov was appointed Ambassador to Poland in March 1953, and Shikin was awarded a medal in December 1954.

Aleksei Kosygin escaped prosecution

“..on the intervention of Mikoyan and Malenkov, who argued with Stalin that he was completely loyal”.

(M. Page: *ibid.*; p. 186).

But after the 19th. Congress of the CPSU in October 1952, Kosygin was demoted from full membership of the Political Bureau to alternate membership of the new Presidium – despite the increase in membership of this body from 12 to 25.

Stalin’s Role in the Counter-Attack

In view of Stalin’s known strong opposition to the economic theses put forward by Voznosensky, there is no reason to doubt the truth of Khrushchev’s assertion – in his “secret speech” to the 20th. Congress of the CPSU in February 1956 – that the counter-attack against the group headed by Voznosensky was **initiated by Stalin:**

“The ‘Leningrad affair’ was also the result of wilfulness which Stalin exercised against party cadres... Stalin personally supervised the ‘Leningrad’ affair...”

Stalin....ordered an investigation of the ‘affair’ of Voznosensky and Kuznetsov”.

(N.S. Khrushchev: “Secret Speech” to 20th. Congress, CPSU, in: “The Dethronement of Stalin”; Manchester, 1956; p. 23, 24).

In view of the fact – referred to in the introduction – that at this time Stalin and his political allies were in a minority on both the Central Committee of the CPSU and its Political Bureau, there is also no reason to doubt Khrushchev's statement that the counter-attack was launched outside these organs: "Had a normal situation existed in the party's Central Committee and in the Central Committee's Political Bureau, affairs of this nature (the 'Leningrad Affair' – WBB) would have been examined there in accordance with party practice, and all pertinent factors assessed...Stalin personally supervised the 'Leningrad Affair' and the majority of the Political Bureau members did not, at that time, know all the circumstances in these matters....It is a characteristic thing that the decision to remove him (Voznosensky – WBB) from the Political Bureau was never discussed but was reached in a devious fashion. In the same way came the decision concerning the removal of Kuznetsov and Rodionov from their posts" . (N. S. Khrushchev: *ibid.*; p. 23, 31).

Khrushchev gives no details as to the "devious fashion" in which Stalin and his colleagues secured the removal of the group headed by Voznosensky from their Party and state posts, without this having first been approved by the Central Committee or its Political Bureau. It may be assumed, however, that they adopted a similar procedure to that which they had used successfully in similar circumstances in the 1930's.

The first step in this process was that the General Secretary's personal secretariat, headed by Aleksandr Poskrebyshchev, operating as an intelligence service outside the control of the oppositionist majority, would carry out its own investigation into the activities of the persons suspected of treason. If the results of this investigation were positive, the evidence would then be passed over to the official state security organs. Even if these organs were headed by concealed oppositionists (as in the Yagoda/Yezhov period of 1934-38) or by sympathisers with the opposition (as in the Abakumov period of 1946-52, the period under discussion here), the heads of these organs were then faced with the choice either of pursuing their own investigations and acting upon the evidence, or of risking their exposure as accomplices of traitors. As a matter of policy agreed among the concealed oppositionist conspirators, they invariably chose the first course. Backed by the decision of the state security organs that a *prima facie* case had been made out against the persons concerned, Stalin, as General Secretary of the CPSU, then felt

in a strong enough position to take emergency action in the name of the Central Committee – dismissing them from any responsible Party posts they might hold and recommending to the appropriate state organs their dismissal from responsible state positions.

This is, doubtless, what Khrushchev meant in complaining, in his “secret speech” to the 20th. Congress of the CPSU, about Stalin’s:

“arbitrary behaviour”; (N. S. Khrushchev: *ibid.*; p. 7)

and of his:

“..many abuses, acting in the name of the Central Committee, not asking for the opinion of the committee members nor even of the Central Committee’s Political Bureau”;
(N. S. Khrushchev: *ibid.*; p. 9).

Of course, this emergency action on the part of the General Secretary required ratification by the Political Bureau and the Central Committee. But this faced the oppositionist majority with the choice **either** of endorsing the action that had been taken, **or** of risking their exposure as accomplices of traitors. As a matter of agreed policy, they invariably chose the first course of action. As Khrushchev expressed it:

“Such conditions put every member of the Political Bureau in a very difficult situation.... You will understand how difficult it was for any member of the Political Bureau to take a stand against any one or another unjust or improper procedure”.
(N.S. Khrushchev: *ibid.*; p. 131).

The Conspiracy of Silence

The question remains to be answered: who was responsible for the conspiracy of silence which surrounded the dismissal of Voznosensky and his colleagues from their party posts, their arrest and trial?

Clearly, Stalin and his political allies, being strongly **opposed** to Voznosensky’s economic theses, could only be **assisted** in their attack upon these theses by the public announcement that their au-

thor had been charged and found guilty of treasonable crimes against the Soviet state.

The concealed oppositionists, on the other hand, had an **opposite** interest, since they favoured Voznosensky's economic theses, which they intended to revive as soon as circumstances made this practicable. Having a majority on both the Central Committee of the CPSU and its political Bureau, they used this majority to limit as much as possible the adverse effects on their position arising from their forced ratification of the "purge" initiated by Stalin: they secured the adoption of resolutions which **forbade publication** of the dismissal of Voznosensky and his group from their Party posts, their arrest and trial, together with any official denunciation of Voznosensky's economic theses.

Thus, on July 13th., 1949, the Central Committee of the CPSU adopted a resolution endorsing the dismissal of the Editor of the magazine "Bolshevik" and several members of its editorial board for having published "excessive praise" of Voznosensky's book;

"The editors of 'Bolshevik' permitted a serious mistake when it opened its columns to sycophantic praise of the booklet by N. Voznosensky 'The War Economy of the USSR during the Patriotic War', advertising it as a 'profound scientific investigation' "

(CC. CPSU: Resolution of July 13th., 1949, in: "Pravda" (Truth), December 24th., 1952, in: R. Conquest: "Power and Policy in the USSR"; London; 1961; p. 104).

This resolution, like others adopted by the Central Committee at the time on the "Leningrad Affair" was **not published at the time**. Only on December 24th., 1952 – **more than three years later** – was a section of it cited in an article in "Pravda" by **Mikhail Suslov**.

The first published criticism of Voznosensky's economic theses appeared also in 1952 when Stalin seized the opportunity afforded to him by his allotment of the "harmless" task of writing a criticism of a draft textbook of political economy to denounce these theses, but without naming Voznosensky as their author.

It was about this time – the autumn of 1952 – that a Kremlin radiologist, **Dr. Lydia Timashuk**, wrote to Stalin accusing a num-

ber of Kremlin doctors of being involved in an opposition conspiracy which had resulted in the murder of a number of Soviet leaders who had been closely associated with Stalin – including **Andrei Zhdanov and Aleksandr Scherbakov** – by means of criminally wrong medical “treatment”.

It was in this atmosphere of the investigation of this case, in which it was widely rumoured that a number of prominent Party and state leaders were suspected of involvement, and immediately following the public trial in November 1952 of Czechoslovak Party and state leaders (headed by **Rudolph Slansky** and **Vladimir Clementis**), in which the defendants admitted to treason in collaboration with Party and state leaders in Yugoslavia, that the concealed oppositionist majority on the Central Committee of the Soviet Party and its Political Bureau were forced into permitting the minority to secure a reversal of the policy of “silence” in relation to the “Leningrad Affair” which had been in force since 1949.

On December 24th., 1952, as has been said, an article by **Mikhail Suslov** was published in the official paper of the CC of the CPSU, “Pravda”, quoting for the first time from one of the CC resolutions of three years earlier in connection with the “Leningrad Affair” and, again for the first time, **denouncing Voznosensky’s economic theses by name as revisionist**: “This booklet of Voznosensky’s (‘The War Economy of the USSR during the Patriotic War’ – WBB) confused the solution of problems of the political economy of Socialism, represented a hotchpotch of voluntarist views on the part to be played by plans and the state in Soviet society and fetishism of the law of value, which was allegedly the governor of the distribution of labour between the sections of the national economy of the USSR”.

(M. Suslov: Article in “Pravda” (Truth), December 24th., 1952, in: R. Conquest: *ibid.*; p. 103-4).

Following the publication of this article, an intensive ideological campaign was launched against Voznosensky’s economic theses.

On January 9-11th., 1953, a conference of nearly 1,000 economists deemed it opportune to condemn the error made by those of their number who had supported Voznosensky’s economic theses.

On January 12th., 1953, an editorial in “Pravda” compared the struggle against Voznosensky’s economic theses with that waged against

“...the Trotskyist adventurers and right capitalists”.

(Editorial, “Pravda” (Truth). January 12th., 1953, in: H. E. Salisbury: “Moscow Journal”; Chicago; 1961; p. 312).

On January 28th., 1953 the journal “Kommunist” (Communist) denounced by name a number of economists and philosophers for their support of Voznosensky’s economic theses.

The campaign directed against Voznosensky’s economic theses came, however, to an **abrupt halt** following **the death of Stalin** on March 5th, 1953.

The “Rehabilitation”

Twenty-one months after Stalin’s death, in December 1951, the still concealed oppositionists in the leadership of the Soviet Party and state felt their position strong enough to take their revenge on **Viktor Abakumov**, who had been Minister of State Security at the time of the “Leningrad Affair”.

On December 24th., 1954, it was announced that Abakumov, together with five other leading officials of the security organs in 1949-50, had been **tried** in secret by a military tribunal of the Supreme Court for “treason and political sabotage”. All had been found guilty; four, including Abakumov, had been sentenced to death and executed; two had been sentenced to long term imprisonment. The official announcement declared that Abakumov

“....had fabricated the so-called ‘Leningrad case’ ”
 (“Keesing’s Contemporary Archives”, Volume 10;
 p. 13,978).

Fourteen months later, the opposition leaders felt secure enough to throw off their masks of having been Stalin’s “loyal collaborators”. At the 20th. Congress of the CPSU in February 1956, First Secretary **Nikita Khrushchev**, in his “secret speech” accusing Stalin of the “murder” of many “good Communists”, described Voznosensky and Kuznetsov as

“...talented and eminent leaders”;
 (N. S. Khrushchev: “Secret Speech”, 20th. Congress, CPSU, in: “The Dethronement of Stalin”; Manchester 1956; p. 23).

who had:

“...innocently lost their lives”;
(N. S. Khrushchev: *ibid.*; p. 23).

because:

“...the so-called ‘Leningrad affair’ ...was fabricated”.
(N. S. Khrushchev: *ibid.*; p. 23).

He added:

“Persons who innocently suffered are now rehabilitated and honour has been restored to the glorious Leningrad Party organisation. Abakumov and others who had fabricated this affair were brought before a court; their trial took place in Leningrad and they received what they deserved”.
(N. S. Khrushchev: *ibid.*; p. 24).

Of course, as a surviving member of the opposition conspiracy who escaped detection during Stalin’s lifetime, Khrushchev was bound to present the liquidation of those of his fellow-conspirators who **were** detected as “unjust” and the result:

“...of odious falsification, and of criminal violation of revolutionary legality”;
(N. S. Khrushchev: *ibid.*; p. 14).

It must, therefore, be considered a notable tribute to Stalin’s integrity that even Khrushchev felt compelled to admit that Stalin acted in these cases **from the highest motives, believing** – and, from the standpoint of Marxism- Leninism, correctly believing – that he was acting **in defence of socialism:**

“All this which we have just discussed was done during Stalin’s life under his leadership and with his concurrence; here Stalin was convinced that this was necessary for the defence of the interests of the working classes against the plotting of enemies and against the attack of the imperialist camp. He saw this from the position of the interest of the working class, of the interest of the victory of socialism and communism He considered that this

should be done in the interest of the party, of the working masses, in defence of the Revolution's gains".

(N. S. Khrushchev: *ibid.*; p. 32).

POSTSCRIPT

Circa 1998

Introduction

The first edition of this book covered the post-Stalin history of the soviet union up to the early 1980s.

This first edition demonstrated that the social system which had by then come into existence in the soviet union following the ‘economic reforms’ of 1965-66 was a state monopoly capitalism, dominated by heavy industrial capital, in which the capitalist class exploited the working class.

In this social system, the communist party functioned as a fascist-type party within a fascist-type state, and was the principal political instrument by which soviet heavy industrial capital maintained its dominant position in the economy – concealing the real basically capitalist character of soviet society beneath the false trappings of pseudo-socialism.

In fact, the last period of the existence the soviet union, after 1980, was characterised by a struggle between two – later three – major sections of the new capitalist class – manifesting itself in the form of a struggle between two – later three – major revisionist political groupings.

The first major political grouping, closely linked at first with the communist party apparatus, represented the then dominant heavy industrial wing of soviet capital.

Since this grouping favoured the retention of the pseudo-socialist facade on which their dominance of the economy depended, it was often portrayed as a ‘conservative’ grouping. It was headed by

Yegor Ligachev, who became in may 1983 leader of the central committee’s department for organisational work, and **Gennady Yanayev**, who became a member of the Politburo of the Central Committee of the CPSU in July 1990 and Vice-President of the USSR in December 1990.

The second major political grouping represented other wings of soviet capital together with foreign capital. Since this grouping favoured ‘free enterprise’ and a ‘democratisation’ of the political system’ which would permit them to break the dominance of the state by the first political grouping, but retention of a centralised federal

state structure, it was often portrayed as a radical' or reform' grouping. It was headed by **Mikhail Gorbachev**, who became a secretary of the central committee of the CPSU with responsibility for agriculture in November 1978, a member of the political bureau of the cc of the CPSU in October 1980, General Secretary of the CPSU in march 1985 and State President in October 1988.

As will be demonstrated. In the autumn of 1990 the second major political grouping split into two.

Naturally, in the 1980s each of the political groupings within the CPSU still felt it expedient to claim that it, an] it alone, was pursuing a Marxist-Leninist political line. For example, at the 28th Congress of the CPSU in July 1990 Yegor Ligachev:

“firmly rejected the charge of conservatism, which he said derived from his ‘uncompromising stand on genuine socialism’... Ligachev was highly critical of the reintroduction of private ownership, declaring scornfully that this was hardly ‘the last word in socialist theory’”

(‘Keesing’s Record of World Events’, Volume 36; p. 37.615).

Again, in March 1988 the newspaper ‘Sovietskaya Rossiya’ (Soviet Russia) published a letter from a Leningrad teacher, **Nina Andreyeva**.

“defending the leadership of Marshal Stalin and sharply criticising Mr. Gorbachev’s policies as too liberal. It was alleged that publication of the letter had been personally endorsed by Mr. Yegor Ligachev”.

(‘Keesing’s Record of World Events’, Volume 34; p. 36,111).

In April 1988, ‘Pravda’ published a full-page reply to Andreyeva ‘s letter attributed to **Aleksandr Yakovlev**, who became a Secretary of the Central Committee in January 1987 and a member of the Politburo of the CC of the CPSU in June 1987, and who:

“after Gorbachev’s rise to power, 1985, became his most trusted aide”. (Jeanne Vronskaya & Vladimir Chuguev: ‘Biographical Dictionary of

the Former Soviet Union'; London; 1997; p. 185).

Later in April 1988, 'Sovietskaya Rossiya' declared in an editorial that:

"publication of Andreyeva 's letter had been a mistake".

('Keesing's Record of World Events', Volume 34; p. 36,111).

The 'Period of Stagnation' 1982-85

In October 1980, **Aleksei Kosygin** resigned as Prime Minister (a post had held since 1964) and from the Political Bureau of the CC of the CPSU. He was succeeded as Prime Minister by **Nikolai Tikhonov**. Kosygin died in December 1980.

Leonid Brezhnev died in November 1982, and was succeeded as General Secretary of the CPSU and as state President by **Yuri Andropov**, who had been head of the state security service (the KGB) from 1967 to 1982. Andropov died in February 1984 and was succeeded as General Secretary of the CPSU by **Konstantin Chernenko**. Chernenko died in turn in March 1985.

The period from 1980 to 1985 was **one in which the first political grouping was dominant**, so that the **'reform' process was held up**; it was a period in which 'economic reform' was checked, it was a period in which:

"The Kosygin reforms had been effectively sabotaged by Party officials and central economic managers."

('Encyclopedia Americana', Volume 27; Danbury (USA); 1992; p. 430c).

And so was:

"without any major new initiatives".

('Keesing's Contemporary Archives', Volume 31; p. 33,536).

It was also a period of:

"economic slowdown.... By the time of Brezhnev's death in November 1982, the USSR was in head-long decline."

('New Encyclopaedia Britannica', Volume 28;

Chicago; 1997; p. 1,017).

Indeed, the late 1970s and early 1980s were later characterised by Gorbachev as:

“The ‘era of stagnation’”.
(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430d).

The Gorbachev Period 1985-89

In March 1985 Chernenko was succeeded as General Secretary of the CPSU by Mikhail Gorbachev.

The Gorbachev period – from 1985 to 1990 – became one in which **the second political grouping was dominant**. Gorbachev’s first year in office was:

“Characterised by sweeping personnel changes in the Party and government”.
(‘Keesing’s Contemporary Archives’, Volume 32; p. 34,367).

since, as soon as he came to office, Gorbachev:

“moved rapidly to consolidate his personal power”.
(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430e).

He:

“replaced a large number of leading state and CPSU officials”.
(‘The Europa World Year Book: 1997’, Volume 2; London; 1997; p. 2,755)

largely under the guise of a:

“campaign against corruption and inefficiency.”
(‘Keesing’s Contemporary Archives’, Volume 31; p. 33,536).

which:

“concentrated on removing officials remaining from the Brezhnev regime.”
(‘Keesing’s Contemporary Archives’, Volume 33;

p. 34,951).

In July 1985, on the nomination of Gorbachev, **Andrei Gromyko** was ‘promoted’

“to the (largely ceremonial) post of Head of State,”
(Jeanne Vronskaya & Vladimir Chuguev: op. cit.;
p. 175).

i.e., State President. He was succeeded as USSR Minister for Foreign Affairs by the Georgian **Eduard Shevardnadze**, who:

“was a staunch supporter of Gorbachev”.
(Martin McCauley: ‘Who’s Who in Russia from
1900’; London; 1997; p 186).

Grigory Romanov, who was:

“one of Gorbachev’s main rivals”,
(Jeanne Vronskaya & Vladimir Chuguev: ibid.; p.
438).

was in July 1985:

“removed from all his posts with rumours of alcoholism and corruption emerging everywhere.”
(Jeanne Vronskaya & Vladimir Chuguev: ibid.; p.
438).

In September 1985, Gorbachev:

“...pushed... aside”,
(Martin McCauley: op. cit.; p. 206).

Tikhonov as Prime Minister, he being:

“...one of the last of the Brezhnevite old guard”,
(Jeanne Vronskaya & Vladimir Chuguev: op. cit.;
p. 539).

“to make way for **Nikolai Ryzhkov**”.
(Martin McCauley: op. cit.; p. 206).

a supporter of ‘economic reform’ who had been a member of the Politburo of the CC of the CPSU since April 1985.

In December 1985, **Viktor Grishin**, a leading member of the first (Ligachev/Yanayev) grouping

“known as ‘the Moscow Godfather’;
(Martin McCaulkey: *ibid.*; p. 98).

was dismissed as First Secretary for Moscow City, and succeeded in the post by a supporter of economic reform’, **Boris Yeltsin**. At the same time:

“Aleksandr N. Yakovlev, Gorbachev’s closest adviser, came to prominence.
(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430e).

By June 1987, Gorbachev had:

“managed to make Yakovlev a full member of the Politburo”.
(‘New Encyclopaedia Britannica’, Volume 28; Chicago; 1997; p. 1,020).

Gorbachev also:

“launched a purge of the military, appointing **Dimitri T. Yazov** the new Defence Minister”.
(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430e).

In June 1987, Yazov had been promoted to the rank of Army General in February 1984 and had been Commander of the Far Eastern Military District from June 1984 to November 1986.

At the 27th Congress of the CPSU in February/March 1986,

“there were wholesale changes.... About 52% of the newly elected Central Committee were new appointees.” (‘New Encyclopaedia Britannica’, Volume 28; Chicago; 1997; p. 1,020).

while

“military representation declined sharply”.
(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430e).

Later, in April 1989,

“a decisive CC Plenum saw the removal of 110 old-guard members of the CC and the promotion

of 24 reformist candidate members to full membership”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430e).

Criticism of Brezhnevism: 1986-88

The Gorbachev period was marked by **criticism of the Soviet leadership in the 1970s**. For example, at the 27th Congress of the CPSU in February/March 1986, Gorbachev:

“attacked inertia and apathy under the 18-year leadership of President Leonid Brezhnev”.

(‘Keesing ‘5 Contemporary Archives’, Volume 32; p. 34,367)

and in December 1986, an editorial in ‘Pravda’ accused Brezhnev:

“of fostering complacency and allowing the development of ‘negative processes’ in the latter years of his rule. This was the first public attack on Mr. Brezhnev’s leadership in which he was mentioned by name.”

(Keesing’s Record of World Events’, Volume 33; p. 34,951)

Again, at a Central Committee Plenum in January 1987, Gorbachev:

“renewed his attack on negative trends which had emerged in the latter years of the leadership of the late President Leonid Brezhnev.”

(‘Keesing ‘s Record of World Events’, Volume 33; p. 34,949).

In February 1988, Lieutenant-General **Yuri Churbanov**, the son-in-law of the late President Leonid Brezhnev, who had been Deputy Chairman of the KGB in 1980-1984, was:

“arrested on suspicion of corruption and bribe-taking”.

(‘Keesing’s Record of World Events’, Volume 33; p. 35,402).

and in December 1988 was:

“sentenced by the Soviet Supreme Court... to 12 years in prison for accepting bribes.”

(‘Keesing’s Record of World Events’, Volume 4; p. 36,382).

In August 1988, it was decided that:

“Relatives of the late President Leonid Brezhnev were to be stripped of ‘undeserved’ pensions and privileges”.

(‘Keesing’s Record of World Events’, Volume 34; p. 36,067).

‘Perestroika’

The agenda of the now dominant ‘reform’ Party grouping included:

“‘perestroika (economic ‘restructuring’), ‘demokratizatsiya’ (‘democratisation’ of Soviet society), ‘glasnost’ (‘openness’)”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430e).

‘Economic reform’ – a euphemism for measures in the direction of restoring a fully capitalist economic system – was resumed even before the death of Chernenko, since during the Chernenko period:

“Gorbachev was now in overall charge of the Soviet economy.”

(‘Keesing’s Contemporary Archives’. Volume 30; p. 32,866).

Thus, in August 1984,

“a memorandum calling for a fundamental restructuring of the state economic management system’.. was ‘leaked’ to Western journalists”.

(‘Keesing’s Contemporary Archives’. Volume 31; p. 33, 474).

The memorandum argued that the system of centralised economic planning set up during Stalin’s lifetime:

“was now acting as a brake to further development, and called for the abolition of ‘a high degree of centralised decision-making’”.

(‘Keesing’s Contemporary Archives’. Volume 31; p. 33,474).

In a report on economic policy delivered to a conference in Moscow in June 1985, Gorbachev:

“hinted that the State Planning Commission (Gosplan) might become more a policy ‘think-tank’ than a system for setting specific economic goals”.

(‘Keesing’s Contemporary Archives’. Volume 31; p. 34,054).

In October 1985, a new economic programme for 1986-2000 was published, which:

“called for increased production of all consumer goods”.

(‘Keesing’s Contemporary Archives’. Volume 31; p. 34,055).

At the January 1987 Plenum of the CC of the CPSU there were:

“harsh attacks on... central planning and Stalinism”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430f-431).

At a Party Plenum called in June 1987 to discuss ‘restructuring’, Gorbachev

“won endorsement of a radical economic programme designed to establish ‘market socialism’ by 1991”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430e).

He proposed:

“that central planning should be drastically curtailed in favour of management autonomy in enterprises... The proposals on decentralisation were endorsed by the Central Committee”.

(‘Keesing’s Record of World Events’, Volume 34; p. 35,842).

It was at this Plenum that the decision was taken for the:

“elimination of price controls”.

(‘Keesing’s Record of World Events’, Volume 34; p. 35,842),

and for:

“the removal of subsidies”

(‘Keesing’s Record of World Events’, Volume 34; p. 35,842)

which meant:

“that unprofitable enterprises would in future go bankrupt”.

(‘Keesing’s Record of World Events’, Volume 34; p. 35,842).

In June 1988, a joint resolution of the CC of the CPSU, the government and the All-Union Central Council of Trade Unions:

“ordered the creation of a nationwide system for job placement and retraining. Recently Soviet economists had been predicting that as many as 16 million people could lose their jobs by the year 2000”.

(‘Keesing’s Record of World Events’, Volume 34; p. 35,843).

In September 1988, the government approved the:

“granting of leases for up to 50 years... on farm land reversing collectivisation measures introduced under Stalin”.

(‘Keesing’s Record of World Events’, Volume 34; p. 36,131).

At the beginning of August 1990, USSR President Mikhail Gorbachev and Russian President Boris Yeltsin:

“agreed jointly to sponsor a commission of experts which within one month would ‘draft a concept for

the transition to a market economy.”
(‘Keesing’s Record of World Events’, Volume 36;
p. 37,663).

The commission was headed by the economist **Stanislav Shatalin** At the end of August 1990,

"Gorbachev and Yeltsin endorsed a plan produced
by the commission."
(‘Keesing’ s Record of World Events', Volume 36;
p. 37,663).

In September 1990, the USSR Supreme Soviet granted Gorbachev:

"emergency presidential powers... to dictate the introduction of economic reform by decree".
(‘Keesing's Record of World Events', Volume 36;
p. 37,721).

During October 1990,

"Gorbachev used his emergency presidential powers to issue four decrees marking critical steps towards market reform".
(‘Keesing’ s Record of World Events', Volume 36;
p. 37,787).

In March 1991, a presidential decree brought into force:

"a new pricing system which was designed to allow cuts in price subsidies of around 60% in 1991".
(‘Keesing's Record of World Events', Volume 37;
p. 38,129).

In June 1991

“Moscow city council decided to privatise its housing.”
(‘Keesing’s Record of World Events’, Volume 37;
p. 38,273).

In July 1991, a bill on the:

“destatisation and privatisation of enterprises was

passed by the Supreme Soviet... The law envisaged the denationalisation of 40-50% of state assets by the end of 1992, rising to 60-70% by 1995". ('Keesing's Record of World Events', Volume 37; p. 38,347).

Deputies opposing the bill were:

"led by Yegor Ligachev".
('Keesing's Record of World Events', Volume 37; p. 38,347).

A Central Committee Plenum in July 1991 endorsed a new Party programme entitled 'Socialism, Democracy, Progress', which:

"committed the Party to forming a 'controlled market economy' (including the principle of private ownership)".
('Keesing's Record of World Events', Volume 37; p. 38,347).

The Economic Effects of Perestroika (1987-91)

The operation of **perestroika** greatly worsened the economic situation in the Soviet Union.

For example, **inflation grew:**

In March 1987, the:

"existence of inflation in the Soviet Union was officially acknowledged for the first time... by the Central Statistical Board".
('Keesing's Record of World Events', Volume 34; p. 35,843).

"Prices between 1985 and 1988 increased by less than 1% annually, but in 1989 they jumped 9.5% and in 1990 by 29%".
('New Encyclopaedia Britannica', Volume 28; Chicago; 1997; p. 1,022).

In April 1991:

"prices went up ... by an average 60%".
('Keesing's Record of World Events', Volume 37; p. 38,129).

The **budget deficit** grew:

“Traditionally the budget deficit had been 2-3% of GNP... In 1986 the budget deficit rose to 6% of GNP... By... (1988 – Ed.) the deficit had risen to more than 10%”.

(‘New Encyclopaedia Britannica’, Volume 28; Chicago; 1997; p. 1,022).

The country’s **hard currency debt** rose:

“from \$25.6 billion at the end of 1984 to \$80 billion at the end of 1991... By 1989 the Soviets could no longer service their hard currency debt on time.”

(‘New Encyclopaedia Britannica’, Volume 28; Chicago; 1997; p. 1,022).

Unemployment grew. From July 1991:

“unemployment was officially registered in the Soviet Union for the first time since 1930 (when Stalin declared that it had been eliminated)... The law... envisaged the creation of 2,000 labour exchanges. Soviet economists were quoted as predicting 10 million unemployed by the end of 1991”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,348).

Rationing of staple foodstuffs was introduced. In December 1990,

“rationing of staple foodstuffs was introduced in state shops.”

(‘Keesing’s Record of World Events’, Volume 36; p. 37,902).

Thus, under **perestroika**,

“the economy moved from stagnation to crisis, and this deepened as time passed”.

(‘New Encyclopaedia Britannica’, Volume 28; Chicago; 1997; p. 1,022)

and by 1991,

“the economy was facing total collapse.”
(‘New Encyclopaedia Britannica’, Volume 28;
Chicago; 1997; p. 1,022).

Glasnost: 1986-91

Under the slogan of glasnost (‘openness’), in June 1986:

“censorship was loosened... and reformist editors
took over major periodicals”.

(‘Encyclopedia Americana’, Volume 27; Danbury
(USA); 1992; p. 430e).

In 1986 and 1987:

“most political prisoners were released”.

(‘Encyclopedia Americana’, Volume 27; Danbury
(USA); 1992; p. 430f).

In December 1986, the dissident scientist **Andrei Sakharov**
was released from internal exile in Gorky, and his wife **Yelena**
Bonner was pardoned by decree.

(‘Keesing’s Record of World Events’, Volume 33;
p. 35,471).

and in November 1988, Sakharov:

“was elected to the Presidium of the Academy of
Sciences and authorised to travel abroad”.

(‘Keesing’s Record of World Events’, Volume 34;
p. 36,259).

In October 1987, a branch of the Frankfurt-based ‘International
Society for Human Rights’ was formed legally in Moscow.

(‘Keesing’s Record of World Events’, Volume 33;
p. 35,472).

In May 1990, a sweeping new law was passed:

“banning political interference in broadcasting and
permitting newspapers to sue government agencies
that withheld information... Individual citizens
would be allowed to start newspapers.”

(‘Encyclopedia Americana’, Volume 27; Danbury
(USA); 1992; p. 431)

In August 1990, Gorbachev by decree revoked:

“decrees adopted between 1966 and 1988 which had deprived a number of persons now living abroad of their Soviet citizenship”.

(‘Keesing’s Record of World Events’, Volume 36; p. 37,663).

Among those named in the decree was the writer **Aleksandr Solzhenitsyn**. In September 1990,

“a new law... forbade the state from interfering with religious practices, improved the status of religious organisations, and granted the right to provide religious instruction in private schools. The law also barred the government from financing . atheist propaganda”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 431).

‘Democratisation’: 1985-91

Another key facet of Soviet policy under Gorbachev was the so-called ‘democratisation’, the principal aim of which was to reduce the power of the first (Ligachev/Yanayev) political grouping and increase that of second (Gorbachev) grouping.

Already, at the 19th (Extraordinary) Conference of the CPSU in June/July 1988, Gorbachev spoke of:

“the need to make the process of ‘Perestroika’ (re-structuring) irreversible by reforming the political system.”

(‘Keesing’s Record of World Events’, Volume 34; p. 36,003). by the installation of:

“a new structure of state... bodies... and elections to a new Congress of People’s Deputies which would in turn elect an Executive President”.

(‘Keesing’s Record of World Events’, Volume 34; p. 36,003).

A Central Committee Plenum in July 1988 decided that:

“by the end of 1988 there would be multi-

candidate ballots for all Party Committee posts”.
(‘Keesing’s Record of World Events’, Volume 34;
p. 36,116).

In December 1988,

“constitutional amendments were approved... creating a Congress of People’s Deputies (CPD). Two-thirds of its members would be popularly chosen in multi-candidate elections, the other third by social organisations, including 100 delegates by the CPSU. The bicameral Supreme Soviet, to be elected by the CPD from its membership, was... to run the nation’s legislative affairs through an elaborate system of standing committees. The new chairman of the Supreme Soviet was to exercise wide-ranging powers.”

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430e).

In April 1989, the revisionist historian **Roy Medvedev**, author of ‘Let History Judge’, was:

“reinstated as a member of the Communist Party (CPSU).”

(‘Keesing’s Record of World Events’, Volume 35;
p. 36,592).

An important aspect of ‘democratisation’ was the legalisation of political organisations other than the Communist Party. By the spring of 1989,

‘informal’ associations... numbered at least 60,000, and had an explicitly political hue”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430f).

Thus, elections to the new USSR Congress of People’s Deputies, held in March 1989, were the:

“first multi-candidate... elections since 1917, 20% of the deputies chosen were non-Party candidates.... Many Party leaders, although running without opposition, lost by failing to win 50% of

the vote.”

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430e).

In particular, many ‘conservative’ candidates, supporters of the first (Ligachev-Yanayev) grouping

“..were defeated”.

(‘The Europa Year-Book: 1997’, Volume 2; London; 1997; p. 2,755).

Yeltsin:

“won an overwhelming victory in the Moscow constituency”.

(‘The Europa Year-Book: 1997’, Volume 2; London; 1997; p. 2,755).

At a Plenum of the Central Committee of the CPSU in April 1989, Gorbachev:

“secured another major victory in his efforts to remove the threat of conservative opposition to his reform policies. The central committee approved the ‘retirement’ of 74 of its full members and 14 candidate members, many of whom were considered to constitute the ‘old guard’ which had risen to power under the late President Leonid Brezhnev. In addition, 12 out of the 82 members of the Party’s central control and auditing commission were removed... The Plenum promoted 24 people from candidate to full central committee membership”.

(‘Keesing’s Record of World Events, Volume 35; p. 36,592).

In May 1989, the USSR Congress of People’s Deputies:

“elected the new Supreme Soviet.”

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 430f).

Like its predecessor,

“the new Supreme Soviet was to consist of two

chambers, known as the 'Soviet of the Union' and the 'Soviet of Nationalities'. Each chamber was to comprise 271 deputies, elected by the Congress from among its own members."

('Keesing's Record of World Events', Volume 35; p. 36,660).

The new Supreme Soviet:

"elected Gorbachev to the post of... President of the USSR".

('The Europa Year-Book: 1997', Volume 2; London; 1997; p. 2,755).

However, Yeltsin failed to secure election:

"to the 'Soviet of Nationalities'. But one of the 11 successful candidates stood down in his favour."

('Keesing's Record of World Events', Volume 35; p. 36,660).

Also in May 1989, **Anatoly Lukyanov**:

"A close confidant of Gorbachev",

('Keesing's Record of World Events', Volume 35; p. 36,660).

was elected:

"Vice-President".

('Keesing's Record of World Events', Volume 35; p. 36,660).

In July 1989, the 'Inter-Regional Group' was formed within the Congress of People's Deputies:

"Around 300 radical deputies met to establish an independent group within the Congress of People's Deputies which would be dedicated to accelerating perestroika (restructuring) and to 'countering the pressure put on parliament by conservative forces'".

('Keesing's Record of World Events', Volume 35; p. 36,824).

The Inter-Regional Group was:

“under the leadership of Yeltsin”.
(‘Encyclopedia Americana’, Volume 27; Danbury
(USA); 1992; p. 430f).

These developments were reflected in **a steep decline in the influence of the Communist Party of the Soviet Union, from which:**

“large-scale resignations shook morale”.
(‘Encyclopedia Americana’, Volume 27; Danbury
(USA); 1992; p. 430f).

Furthermore,

“the leadership of several republican Parties bolted from central control”.
(‘Encyclopedia Americana’, Volume 27; Danbury
(USA); 1992; p. 430f).

and:

“the authority of the Politburo and Secretariat of the CPSU was diminished”.
(‘Encyclopedia Americana’, Volume 27; Danbury
(USA); 1992; p. 430f).

The revisionists’ programme of ‘democratisation’ included a movement **to abolish the ‘leading role’ of the Communist Party** laid down in Article 6 of the Soviet Constitution, and to abolish the democratic centralism’ laid down in the Party Constitution. A Plenum of the Central Committee in February 1990 was:

“preceded by mass street demonstrations and by the formation of... the ‘Democratic Platform of the CPSU’, which called for... an end to democratic centralism within the CPSU. The Plenum also approved plans to drop Article 6 and gave its support to Gorbachev’s proposal to establish a new post – an executive presidency of the Soviet Union”.
(Encyclopedia Americana’, Volume 27; Danbury
(USA); 1992; p. 430f).

In March 1990, the USSR Congress of People’s Deputies:

“voted to introduce the new presidency and also to

eliminate Article 6”;
(‘Encyclopedia Americana’ Volume 27; Danbury
(USA); 1992; p. 430f).

thus the Party:

“Renounced its constitutionally guaranteed ‘leading role’”.
(‘Keesing’s Record of World Events’, Volume 36;
p. 37.787).

The new presidency:

“Had substantial prerogatives, including the right to nominate the premier and other top officials, to veto legislation, to propose dissolution of the government, and to rule by decree.”
(‘Encyclopedia Americana’, Volume 27; Danbury
(USA); 1992; p. 430f).

In October 1990, a law:

“denied the state the right to propagate atheism, or otherwise interfere in religious affairs.”
(‘Keesing’s Record of World Events’, Volume 36;
p. 37,788).

In December 1990, the USSR Congress of People’s Deputies approved further constitutional changes which:

“Gave President Mikhail Gorbachev executive powers more extensive than those of any previous Soviet leader”.
(‘Keesing’s Record of World Events’, Volume 36;
p. 37,902).

Foreign Policy: 1985-91

The foreign policy of the Soviet Union during the Gorbachev period was based on seeking **friendly – even subservient – relations with the West in order to encourage foreign investment in the Soviet Union.**

Gorbachev:

“aided by Shevardnadze, set out to end the ‘new Cold War’ that had broken out in the late 1970s”.

(‘New Encyclopaedia Britannica’, Volume 28; Chicago; 1997; p. 1,023).

Under Gorbachev,

“the Soviet Union undertook several unilateral initiatives, including in 1985 a freeze on the deployment of SS-20 missiles in Europe and a moratorium on all underground testing, a proposal to eliminate all nuclear weapons by the year 2000, and substantial cuts in military spending and troop numbers beginning in 1989, including plans to reduce the Soviet armed forces by 500,000 over two years.”

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1997; p. 433).

Thus, after 1985:

“the deterioration of US-Soviet relations was reversed”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1997; p. 433).

and:

“cultural and scientific exchanges proliferated”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1997; p. 433).

In January 1987, the Soviet government approved a procedure whereby Soviet enterprises were permitted to create:

“Joint enterprises in the Soviet Union with the participation of organisations and firms from Western and developing countries.”

(‘Keesing’s Record of World Events’, Volume 33; p. 35,019).

The first Reagan-Gorbachev summit

This:

“took place in Geneva in November 1985. A joint statement proposed a 50% reduction in the superpowers nuclear arsenal... One of the agreements

reached at the Geneva summit concerned the withdrawal of Soviet troops from Afghanistan. The last soldier left in February 1989”.

(‘New Encyclopaedia Britannica’, Volume 28; Chicago; 1997; p. 1,023).

The third Summit, in Washington in December 1987:

“produced an agreement to eliminate a whole category of nuclear weapons: land-based intermediate and shorter-range missiles. This was the Intermediate-Range Nuclear Forces (INF) Treaty, formalised by Reagan and Gorbachev at their final summit in Moscow in May/June 1988”.

(‘New Encyclopaedia Britannica’, Volume 28; Chicago; 1997; p. 1,028).

In July 1989, Gorbachev:

“explicitly renounced the use of military intervention in the affairs of Eastern Europe”,

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1997; p. 433).

“thus nullifying the Brezhnev doctrine”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1997; p. 433).

After the invasion of Kuwait by Iraq in August 1990:

“the USSR went along with UN sanctions, restored diplomatic relations with Saudi Arabia, and exchanged consulates with Israel”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1997; p. 434).

Not surprisingly, in October 1990:

“Gorbachev was awarded the Nobel Prize for Peace”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1997; p. 434).

Also in October 1990, Gorbachev used his emergency powers to issue a decree which:

“granted foreign investors (individual or corporate) the right to set up in the Soviet Union a 100% foreign-owned enterprise or to buy a shareholding in existing Soviet enterprises... Repatriation of profits would be possible”.

(‘Keesing’s Record of World Events’, Volume 36; p. 37,787).

In January 1991, Ryzkov suffered a heart attack and resigned as Prime Minister, to be succeeded by Valentin Pavlov, who had been USSR Minister of Finance from July 1989 to January 1991.

In February 1991, Prime Minister Valentin Pavlov:

“stressed that his government ‘stands for cooperation with the West and will encourage foreigners to own up to 100% of businesses’”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,012).

Also in February 1991,

“a meeting of the political and consultative committee of the Warsaw Treaty Organisation... signed a protocol cancelling the validity of all military agreements, organs and structures of the Warsaw Treaty”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,026).

In May 1991,

“the first official and public indication that the Soviet Union was seeking large-scale Western aid came at a press conference between Gorbachev and Italian Prime Minister Guido Andreotti... when Gorbachev made plain his desire to attend the July G-7 meeting.”

(‘Keesing’s Record of World Events’, Volume 37; p. 38,272).

In July 1991,

“Gorbachev and US President George Bush signed the Strategic Arms Limitation Treaty (START),

which cut back, not merely limited, their countries' long-range arsenals".

('Encyclopedia Americana', Volume 27; Danbury (USA); 1997; p. 435).

The Soviet General Staff opposed the policy of detente:

"and became bolder in its opposition as time passed".

('New Encyclopaedia Britannica', Volume 28; Chicago; 1997; p. 1,023).

In July 1991,

"the Warsaw Pact was disbanded".

('Encyclopedia Americana', Volume 27; Danbury (USA); 1997; p. 435).

Under Gorbachev, the Soviet Union collaborated with international financial organisations. For example, in July 1991:

"the Soviet Union made public its intention to apply for full membership of the IMF and the World Bank". ('Keesing's Record of World Events', Volume 37; p. 38,348).

The Split in the 'Radical' Revisionist Grouping: Autumn 1990

In the autumn of 1990, diverging interests within the soviet capitalist class were reflected in a political split within the second ('radical') revisionist grouping.

One sub-grouping. Headed by **Mikhail Gorbachev**, representing primarily the interests of the light the industrial wing of soviet capital. Became known as the 'radical' grouping.

Another subgrouping, headed by **Boris Yeltsin**, representing primarily the interests of an alliance of Russian capital with foreign imperialist capital, became known as the 'ultra-radical grouping'.

The most important policy difference between the two sub-groupings was that the first (Gorbachev) sub-grouping wished to retain a fairly tight federal state structure for the soviet union, while the second (Yeltsin) subgrouping wanted to substitute a much looser confederal state structure.

In order to strengthen its role relative to the first and second subgroupings. The third (Yeltsin) subgrouping adopted the strategy

of working to strengthen the role of the Russian Federation (the RSFSR) relative to that of the Soviet Union as a whole.

The Movement to strengthen the Role of Russia
March 1990 – July 1991

The Brezhnevite leadership of the CPSU had:

“quietly pursued the goal of Russian dominance of the country.... Russian was vigorously promoted... as the language of learning and intercourse. Russian publications expanded and non-Russian were cut back. No attempt was made to encourage the some 24 million Russians living outside Russia to learn the local language of their area. Only 0.2% of these Russians claimed mastery of the local tongue in 1989... The emphasis on Russian was clearly linked to the alarming demographic trends, where the net annual increase in the population of the USSR was almost entirely Muslim.

In the CPSU Politburo there was a marked preference for Russians. In 1980 among the leading 150 functionaries in the Central Committee apparat, only three were non-Slav. There were also only three non-Slavs among the top 150 military personnel”.

(‘New Encyclopaedia Britannica’, Volume 28; Chicago; 1997; p. 1,018).

The RSFSR Congress of People’s Deputies, which convened in May/June 1990,

“elected Yeltsin as Chairman of the Supreme Soviet (the permanent working body of the Congress). This was the highest state post in the RSFSR, and a position from which Yeltsin could effectively challenge the authority of Gorbachev and the all-Union institutions which he represented... On 12 June (1990 – Ed.) the Congress adopted a declaration of sovereignty, asserting that the RSFSR was a sovereign republic and that the laws of the RSFSR had primacy over all-Union

legislation... The institutions that Russia had lacked, including a trade union organisation, a journalists' union, an academy of sciences and national cultural organisations, began to be established. In 1991 a radio and television broadcasting network, controlled by the Russian Government (and largely pro-Yeltsin in its political stance) began broadcasting."

('The Europa Year Book: 1997'. Volume 2; London; 1997; p. 2,755).

The election of Yeltsin as chairman of the Russian Supreme Soviet was effected:

"despite Gorbachev's bitter opposition".

('New Encyclopaedia Britannica', Volume 28; Chicago; 1997; p. 1,021).

There followed

"the establishment of a republican branch of the KGB (Committee of State Security – Ed.) under the jurisdiction of the RSFSR".

('The Europa Year Book: 1997'. Volume 2; London; 1997; p. 2,755).

By the autumn of 1990,

"Mikhail Gorbachev and his advisers had backed away completely from 'shock therapy' for the economy".

('Keesing's Record of World Events', Volume 36; p. 37,537)

and in October 1990 the USSR Supreme Soviet approved another:

"outline programme to create a market economic system".

('Keesing's Record of World Events' Volume 36; p. 37,786).

which was:

"a compromise between Stanislav Shatalin's...

proposals and the more cautious plan produced by Prime Minister Nikolai Ryshkov.”
(‘Keesing’s Record of World Events’ Volume 36; p. 37,786).

The search for a compromise

“angered supporters of the Shatalin plan”.
(‘Keesing’s Record of World Events’, Volume 36; p. 37,786).

Russian Federation President, Boris Yeltsin dismissed it on 1 September as an attempt to:

“mate a hedgehog with a snake”.
(‘Keesing’s Record of World Events’, Volume 36; p. 37,721).

In September 1990,

“without waiting for a decision by the USSR Supreme Soviet, the Russian Federation Supreme Soviet... adopted the Shatalin programme.”
(‘Keesing’s Record of World Events’, Volume 36; p. 37,786).

By:

“unilaterally adopting the programme, with its commitment to wide-ranging economic sovereignty for the individual republics, Russia placed itself potentially on a collision course with the USSR administration”.
(‘Keesing’s Record of World Events’, Volume 36; p. 37,722).

Also in September 1990, the Russian Federation Supreme Soviet

“passed a vote of no-confidence in Ryzhkov’s government”.
(‘Record of World Events’, Volume 36; p. 37,722).

And the first (Ligachev/Yanayev) political grouping responded.
In mid-1990,

“a Russian Communist Party (RCP) was established, led by Ivan Polozkov, a conservative communist opposed to Yeltsin.”

(‘The Europa Year Book: 1997’. Volume 2; London; 1997; p. 2,755).

For its part, the third (Yeltsin) intra-Party grouping responded initiating the formation within the Russian Republic of:

“the ‘Communists for Democracy’ Movement, led by Rutskoi”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,347).

At a conference in August 1991, ‘Communists for Democracy’ became ‘Democratic Party of Communists of Russia’ (DPCR), which:

“saw itself as in opposition to the conservative Russian Communist Party (RCP), and as aiming to replace it while remaining part of the CPSU”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,347).

Under the pressure of the second (Gorbachev) grouping, the CPSU:

“condemned the formation of the RCP as a ‘party within a party’, declared its conference resolutions invalid.” (‘Keesing’s Record of World Events’, Volume 37; p. 38,347).

And later, in August 1991:

“expelled Rutskoi from the Party”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,347).

The RCP was banned by Yeltsin in November 1991.

(Martin McCauley: op. cit.; p. 161).

In March 1991, when a referendum was held in nine republics of the USSR to ask the public whether a restructured USSR should be retained:

“voters in the RSFSR... approved an additional question on the introduction of a Russian presidency”.

(‘The Europa Year Book: 1997’. Volume 2; London; 1997; p. 2,755).

The result of these manoeuvres was the temporary establishment of a **dual power, with the Gorbachev revisionist grouping dominating the non-Russian areas of the USSR and the Yeltsin revisionist grouping dominating the Russian areas, the RSFSR.**

Russian presidential elections in June 1991:

“were won convincingly by Yeltsin and his Vice-President Aleksandr Rutskoi, with 57.3% of the votes cast.”

(‘The Europa Year Book: 1997’. Volume 2; London; 1997; p. 2,755).

June 1991 also saw:

“the development of direct foreign links by the RSFSR, by-passing the Soviet central authorities... The importance of such links was stressed by Yeltsin during his visit to the USA (on June 18-21) and on June 23 it was announced that Russia was to have its own counsellor in the Soviet embassy in Washington and to have its own representative at the Soviet UN mission.”

(‘Keesing’s Record of World Events’, Volume 37; p. 38,273).

The third (Yeltsin) intra-Party grouping now took the lead in ‘economic reform’. In June 1991,

“the Russian Federation government proposed the privatisation of 70% of the republic’s property and assets. Privatisation was to be accomplished by a mixed system of ‘named cheques’ given to every Russian citizen, who would be able to redeem them for company shares of their choice, and by the handing over of 30% of all shares in a privatised enterprise to the workforce. Under the plan, sale of shares to third persons would be banned for

three years, but after that period could be bought and sold on the stock exchange”

(‘Keesing’s Record of World Events’, Volume 37; p. 38,273).

In July 1991, Russian President Boris Yeltsin:

“issued a decree... banning the activities of all party political organisations from enterprises and government bodies within the Russian Federation. The decree specified the precedence of government bodies over the parallel system of CPSU administrative bodies... The CPSU politburo called the decree ‘an unconstitutional, anti-democratic act’”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,347).

The Alliance of the First and Second Political Groupings (1990-91)

Confronted by the growing power of the third (Yeltsin) political sub-grouping, in November/December 1990 the second (Gorbachev) political sub-grouping felt compelled to form a temporary tactical alliance with the first (Ligachev/Yanayev) political grouping against the third (Yeltsin) grouping. In other words, Gorbachev’s position:

“shifted to the right”.

(‘Keesing’s Record of World Events’, Volume 36; p. 37,902).

He:

“adopted a series of conservative measures. He increased the roles of the military and the KGB;... placed hard-liners in control of the police.”

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 434).

These measures included:

“the replacement of the liberal Interior Minister, **Vadim Bakatin**”,

(‘Keesing’s Record of World Events’, Volume 36;

p. 37,902).

after

“Calls for Bakatin’s removal had been taken up... by the ‘Soyuz’ (Union) group of conservative deputies in the Congress”.

(‘Keesing’s Record of World Events’, Volume 36; p. 37,902).

Gorbachev appointed to succeed Bakatin, an adherent of the first (Ligachev/Yanayev) intra-Party grouping, namely,

“**Boris Pugo**, the ethnic Latvian chair of the CPSU central control commission and a major-general in the KGB”. (‘Keesing’s Record of World Events’, Volume 36; p. 37,902).

He also appointed another adherent of the first (Ligachev/Yanavtyev) grouping:

“Col.-Gen. **Boris Gromov**, the... former commander of Soviet forces in Afghanistan, as First Deputy Interior Minister.”

(‘Keesing’s Record of World Events’, Volume 36; p. 37,903).

In December 1990, Gorbachev promoted another leading member of the first (Ligachev/Yanayev) Political grouping, he:

“unexpectedly nominated Gennady Yanayev as Vice-President.”

(‘Keesing’s Record of World Events’, Volume 36; p. 37,903).

The New Union Treaty (1991)

In March 1990,

“the first secession crisis occurred... when the Lithuanian Supreme Soviet proclaimed independence... When Lithuania refused to back down, Gorbachev deployed military force, seized control of local law-enforcement agencies and announced an economic boycott”.

(‘Encyclopedia Americana’, Volume 27; Danbury

(USA); 1992; p. 432).

In April 1990, the USSR Supreme Soviet passed a new law:

“on ‘Procedures for resolving Matters connected with a Union Republic’s Secession from the USSR. A republic might secede subject to a referendum called by the republic’s Supreme Soviet either on its own initiative or in response to a petition signed by at least 10% of USSR citizens permanently resident in that republic. A vote in favour of secession would be carried subject to a two-thirds majority of the republic’s total electorate. There would then follow a transitional period of up to five years during which ‘matters arising’ would have to be resolved”.

(‘Keesing’s Record of World Events’, Volume 36; p. 37,361).

In June 1990,

“the Lithuanian parliament agreed to withdraw the declaration of independence as a precondition for negotiations with Moscow”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 992; p. 432).

and in the same month:

“the USSR Council of the Federation established working groups made up of representatives from the republics to draft a new Union Treaty and scheduled an autumn 1990 session of the Supreme Soviet for discussion.”

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 433).

Discussion centred:

“on whether a federation or confederation should be established (most delegates favoured a confederation)”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 433).

this being a looser form of union than a federation.

In July 1990, the Ukrainian and Byelorussian Supreme Soviets adopted declarations of sovereignty.

(‘Keesing’s Record of World Events’, Volume 36; p. 37,616).

In November 1990:

“Gorbachev presented to the Supreme Soviet (standing legislature) his long-awaited draft union treaty redefining the relationship between the central government republics and the 15 union powers, which would receive expanded... powers”.
(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 434).

Yeltsin responded:

“by putting forth the draft of a new, conflicting constitution for the Russian Federation.” (‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 434).

In January 1991,

“the Soviets used military force against pro-independence groups in Lithuania and Latvia. Troops occupied key buildings and installations in Vilnius and Riga, killing 19 protesters”.
(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 435).

According to a referendum conducted in March 1991,

“76% of the population (on an 80% turnout) wished to maintain the USSR as a ‘renewed federation of equal sovereign republics’”.
(‘Statesman’s Year-Book: 1997-1998’; London; 1997; p. 232).

In this referendum,

“six small republics boycotted the polling, and three of them – Latvia, Estonia and Georgia – held their own referendums in which independence was

approved”.

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 435).

In the Russian Federation, Yeltsin:

“urged a ‘no’ vote, insisting that the individual republics must attain real sovereignty before deciding on union.”

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 435).

In a broadcast on Radio Russia, he:

“complained that the real purpose of the referendum was... to preserve the imperial unitary state.”

(‘Keesing’s Record of World Events’, Volume 37; p. 38,079).

Gorbachev’s hope of signing the Union Treaty in time to present to the G7 Summit in July 1991 were frustrated when the Ukrainian government voted on 21 June 1991:

“to postpone debating the Treaty until Sept. 15, in order to examine possible contradictions with Ukraine’s declaration of independence of July 1990”.

(‘Keesing’s Record of World Events’, Volume 37; 38,349).

Also in July 1991. Gorbachev announced

“that after 12 hours of negotiations with delegations from nine of the Soviet Union’s fifteen republics, work on the draft Union Treaty had been concluded.

The third draft of the Treaty, the most radical so far in devolving powers to the Republics... stated that matters of defence, foreign policy, energy, communications, transport and the union budget, would be decided jointly between the centre and the republics, but in all other matters republican law would have priority over union laws.... The USSR would drop the word ‘socialist’ from its

title, to become the 'Union of Soviet Sovereign Republics'. Its President would be directly elected.... There would still be a bicameral Supreme Soviet. Within this, the 'Soviet of the Union' (elected by the whole population from constituencies of equal population size) would be subordinate to the 'Soviet of the Republic'; the latter would be elected from the republican parliaments, retaining the same number of seats as in the current 'Soviet of Nationalities'... A Constitutional Court would judge disputes between the union and republics, and between republics". ('Keesing's Record of World Events', Volume 37; 38,348-49).

The new Union Treaty was scheduled for signature on 21 August 1991.

The Attempted Coup: August 1991

On the morning of 19 August 1991 – the day before the new union treaty was to be signed – leading members of the first revisionist grouping within the party, headed by vice-president Gennady Yanayev, attempted to seize political power in a coup:

“Tanks were sent on to the streets of Moscow and other major cities.”
('Keesing's Record of World Events', Volume 37; p. 38,368).

A statement was issued by the official Tass news agency saying that presidential authority had been transferred to Vice President Gennady Yanayev,

“due to Mikhail Gorbachev's inability to perform his duties for health reasons.”
('Keesing's Record of World Events', Volume 37; p. 38,368).

and that:

“a state of emergency had been introduced in (unspecified) parts of the Soviet Union for six months to overcome 'the profound crisis, political, ethnic

and civil strife, chaos and anarchy that threaten the lives and security of the Soviet Union's citizens'...

Television and radio channels were restricted and only seven conservative newspapers and 'Izvestia' (the organ of the Presidium of the Supreme Soviet) were allowed to publish... Troops stationed themselves outside newspaper offices and took over the transmission towers".

('Keesing's Record of World Events', Volume 37; p. 38,368, 38,369).

Among the named members of the 'State Committee for the State of Emergency' (SCSE) were Gennady Yanayev (Vice-President), Valentin Pavlov (Prime Minister), Vladimir Kryuchkov (Chairman of the KGB), Marshal Dmitri Yazov (Minister of Defence) and Boris Pugo (Minister of Internal Affairs). ('Keesing's Record of World Events', Volume 37; p. 38,368-69).

At a press conference he gave on 21 August after the collapse of the coup, Gorbachev asserted that a delegation:

"had visited him at his holiday dacha in the Crimea on Aug. 18 and placed him under house arrest because he had refused to endorse a state of emergency."

('Keesing's Record of World Events', Volume 37; p. 38,369).

The Committee's statements:

"made no mention of socialism".

('Keesing's Record of World Events', Volume 37; p. 38,369).

but declared that the coup had been carried out to prevent the:

"destruction of the unified machinery of the national economy".

('Keesing's Record of World Events', Volume 37; p. 38,369).

Observers concluded:

"that a takeover was attempted because of the fear that the Union Treaty, due to be signed on Aug.

20. would end the effective central control of the country”.

(‘Keesing’ 5 Record of World Events’, Volume 37; p. 38,368).

A statement by Anatoly Lukyanov, Chairman of the Supreme Soviet, dated the same day,

“criticised the Union Treaty for giving away too much central power to the republics”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,368).

declaring that it:

“did not reflect the people’s wish, as expressed in the March referendum... to preserve the Soviet Union as a federation.”

(‘Keesing’s Record of World Events’, Volume 37; p. 38,369).

The Failure of the Coup (August 1991)

However,

“the coup was poorly planned and executed”.

(‘New Encyclopaedia Britannica’, Volume 281 Chicago; 1997; p. 1,023).

and

“there were significant divisions among top military and KGB officers.”

(‘New Encyclopaedia Britannica’, Volume 281 Chicago; 1997; p. 1,023).

Indeed, a key factor in the failure of the coup was:

“the opposition of some of the armed forces”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,369).

headed by Air Force Commander **Yevgeny Shaposhnikov** and Air Force Paratroops Commander **Pavel Grachev**, both of whom were adherents of the third grouping (Yeltsin) and:

“disobeyed the SCSE”.

(‘Keesing’s Record of World Events’, Volume 37; p. 36,369).

The coup was strongly **opposed by the second (Gorbachev) and third (Yeltsin) intra-Party groupings.** The personal opposition of Yeltsin was particularly strong; he:

accused the SCSE of ‘treason’ and called troops to obey the RSFSR leadership.... On Aug. 19 he made a dramatic call for resistance, standing on one of the tanks stationed outside the Supreme Soviet building”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,369).

On 20 August, there were:

“huge demonstrations in front of the Russian Federation Supreme Soviet building, the ‘White House’... In an atmosphere of great tension... Muscovites defied the curfew in force from 11 p.m., remaining assembled in large numbers to defend the ‘White House’ against a rumoured impending attack by pro-coup forces. They built makeshift barricades against tank attacks and were reported to be forming ‘defence units’. The building was also defended by armed KGB units and police loyal to Yeltsin.... But the feared attack on the building... did not take place.”

(‘Keesing’s Record of World Events’, Volume 37; p. 38,369).

Thus, on the morning of 21 August:

“the Defence Ministry Collegium decided at a meeting... to withdraw the troops.”

(‘Keesing’s Record of World Events’, Volume 37; p. 38,369).

As a result:

“troops began withdrawing from Moscow and media restrictions were lifted... Press restrictions, imposed by what Tass called the ‘former’ SCSE,

were lifted and Russian Radio and Television resumed broadcasting”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,370).

Later the same day:

“the USSR Supreme Soviet’s Presidium declared the actions of the SCSE illegal... and the Procurator-General’s office announced that criminal proceedings for high treason had been instigated against members of the committee”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,370).

That evening Gorbachev was permitted to return to Moscow. On 22 August, the KGB Collegium issued a statement saying:

“The staff of the KGB have nothing to do with the unlawful acts of the group of adventurers”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,370).

The Aftermath of the Coup (August/September 1991)

The circumstances of the attempted coup and its failure led to a significant change in the balance of power between the three opposition sub-groupings.

The first (Yanayev/Ligachev) grouping had been decisively defeated, while the second (Gorbachev) sub-grouping had been very significantly weakened:

“During the coup, Gorbachev had lost much of his authority. Boris Yeltsin, though nominally his subordinate as President of Russia, was now a far more powerful politician.”

(BBC2: ‘Tsar Boris: The Yeltsin Years’, 3 January 1992).

Indeed, Gorbachev was forced to:

“admit his own Ministers had led the coup plot against him”.

(BBC2: ‘Tsar Boris: The Yeltsin Years’, 3 January 1992).

and:

“was compelled by the increase in Yeltsin’s political standing and the fact that most state bodies were at least partially compromised in the coup attempt, to acknowledge the need for a new state structure.”

(‘Keesing’s Record of World Events’, Volume 37; p. 38,368).

As early as 21 August, Yeltsin:

“was awarded additional powers... by the RSFSR Supreme Soviet, which strengthened his position vis-a-vis Gorbachev”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,371).

On August 21 and 22:

“SCSE members were arrested... Pugo committed suicide on Aug. 21. Pavlov, who was reported to have developed high blood pressure, was put under guard in hospital... Lukyanov resigned as Supreme Soviet chairman on Aug. 26 and was arrested on Aug. 29”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,371).

On 23 August:

“Gorbachev agreed to Yeltsin’s demands that he sign decrees confirming the measures undertaken by the RSFSR government during the coup, thus making them constitutionally binding. A key decree of Aug. 23 transferred all Union enterprises and natural resources on RSFSR territory to RSFSR jurisdiction”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,371).

On 22 August,:

“Yeltsin announced that he had taken control of Soviet armed forces on Russian territory and...

banned Party organisations in them. He also... banned newspapers which had only printed SCSE decrees, dismissed the chairmen of TASS and Novosti (news agencies – Ed.)”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,371).

at the RSFSR Supreme Soviet on the same day, Gorbachev was compelled to agree:

“that the whole Cabinet should resign, and that the new Prime Minister should be a Russian. This reflected Yeltsin’s demands”.

(‘Keesing’s Record of World Events 19 Volume 37; p 38,371).

while

“Yeltsin presented Gorbachev with a fait accompli at the RSFSR Supreme Soviet, when... he signed in front of him a decree suspending the activity of the Russian Communist Party (RCP) ‘pending the investigation by juridical bodies of its involvement in all these events”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,372).

The Liquidation of the Soviet Union (August/September, 1991)

On 24 August, Gorbachev:

“resigned as general secretary of the CPSU”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,368).

At an Extraordinary Session of the USSR Supreme Soviet on 26 August,

“Gorbachev admitted his responsibility for the coup in having appointed conservatives to head the organisations which controlled troops. and for ‘liberalisation and indulgence’, despite warnings of conservatives’ discontent”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,372).

On 28 August:

“a vote of no confidence in the Pavlov Cabinet as a whole was passed formally... by the USSR Supreme Soviet.... The Cabinet, which had been in course of formation since March 1991 and was still not complete, was therefore dissolved”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,371).

Also on 28 August,

“Gorbachev removed the KGB leadership (Collegium), placed KGB troops under the control of the Defence Ministry, and established a commission to investigate KGB responsibility for the coup”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,372).

On 29 August,

“the CPSU’s activity was suspended throughout the Soviet Union on the mandate of the USSR Supreme Soviet... CPSU bank accounts and financial operations were frozen”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,372).

By the end of August,

“14 people involved in the coup had been charged with high treason”.

(‘Keesing’s Record of World Events’ Volume 37; p. 38,371).

These events:

“touched off a wave of declarations of independence, which by October (1991 – Ed.) had been made by all the union republics except Kazakhstan and Russia... These actions... rendered the yet-unsigned union treaty irrelevant.”

(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 436).

In September/October 1991, the 5th Extraordinary Congress of People's Deputies met and:

“called for the signing of a treaty on a ‘Union of Sovereign States’, adherence to which would be determined by the individual republics”.
(‘Keesing’s Record of World Events’, Volume 37; p. 38,414).

In the same month,

“the Soviet Union recognised the independence of Lithuania, Latvia and Estonia”.
(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 436).

In October 1991,

“the Congress of People's Deputies approved a plan... for an interim USSR political structure, pending the revision of the constitution and the union treaty. The plan embodied a sweeping transfer of power from the central government to the republics. For the central government a State Council was created, chaired by Gorbachev and including the presidents of the union republics.... The Soviet cabinet was disbanded”.
(‘Encyclopedia Americana’, Volume 27; Danbury (USA); 1992; p. 476).

The congress:

“granted Yeltsin special powers for a period of one year, including the right to issue decrees with the same force as legislation adopted by the legislature, the right to appoint the leaders of local administrations... and the right to appoint government ministers without parliamentary approval”.
(‘Europa World Year Book 1997’, Volume 2: London; 1997; p. 2,755).

In November 1991, a new Russian government was announced,

“With Yeltsin himself taking the office of Prime Minister”.

(‘European World Year Book 1997’; Volume 2; London; 1997; p. 2,755).

Also in November 1991, Russian President Boris Yeltsin:

“issued a decree... banning the Communist Party of the Soviet Union (CPSU) and the Russian CP and nationalising their property”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,583).

In the same month, the Supreme Soviet of the Russian Federation:

“passed a law giving citizenship to Russians living outside the borders of the Russian Federation. This would affect the estimated 26 million Russians in other Soviet and former Soviet republics”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,583).

and at a meeting of the State Council:

“agreement was reached on the abolition of all Union Ministries, except for railways, atomic power and electricity. The question of the Ministries of Defence and Foreign Affairs was discussed in closed session and their survival was subsequently decided”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,581).

After the meeting,

“it was announced that agreement had been reached on forming a ‘Union of Sovereign States’... However, the seven republican delegations which attended a further meeting on Nov. 25 refused to initial the Treaty”.

(‘Keesing’s Record of World Events’, Volume 37; p. 38,581).

On 7-8 December 1991, the Presidents of Russia, Ukraine and Belarus (formerly Belorussia) held a secret meeting in Minsk (Belarus):

“They met secretly behind closed doors to decide the fate of the largest country on earth”.
(BBC2: op. cit.).

The meeting:

“decided to replace the Soviet Union by a loose confederation of independent states. Yeltsin had achieved his goal. With no Soviet Union, there’d be no job for Gorbachev”.
(BBC2: ibid.).

Yeltsin secured the approval of the US government for the decision, which was, as US President **George Bush** remarked:

“in the best interests of the United States of America.”
(George Bush: TV Interview: BBC2: ibid.).

but Soviet President Mikhail Gorbachev was not informed. As US Secretary of State **James Baker** said in a televised interview:

“We found that President Gorbachev didn’t know anything about it”.
(James Baker: TV Interview: BBC 2; ibid.).

When Gorbachev was eventually informed, he described the decision taken as:

“contemptible”.
(Mikhail Gorbachev: TV Interview: BBC2: ibid.).

The Minsk meeting issued a statement saying:

“The USSR, as a subject of international law and a geopolitical reality, ceases to exist.”
(‘Keesing’s Record of World Events’, Volume 37; p. 38,654).

The Formation of the ‘Commonwealth of Independent States’ December 1991

On 8 December 1991, at their meeting in Minsk, the three Slav republics (Russia, Ukraine and Belarus),

“concluded an agreement... establishing a ‘Commonwealth of Independent States’ (CIS) with its

headquarters in Minsk”.
(‘Statesman’s Year-Book: 1997-98); London;
1997; p. 33).

This would be:

“a loose alliance without central governing bodies”.
(‘Keesing’s Record of World Events’, Volume 37;
p. 38,654).

On 21 December 1991,

“in Alma Ata a further declaration was signed by representatives of the three original members and of eight other republics: Azerbaijan, Kazakhstan, Kyrgystan, Moldova, Tajikistan, Turkmenistan and Uzbekistan”. (‘Statesman’s Year-Book: 1997-1998’; London; 1997; p. 33).

The Alma Ata declaration

“established a commonwealth of 11 states, leaving, of the former Soviet republics, only Georgia and the three Baltic States outside the new body. (Georgia subsequently joined the CIS in December 1993)”.
(‘Europa World Year Book 1997’, Volume 2;
London; 1997; p. 2,755).

Assurances:

“were given to the world community that single control would be maintained over the nuclear weapons on former Soviet territory, and that the treaty obligations of the Soviet Union would be respected by the newly independent states.”
(‘Keesing’s Record of World Events’, Volume 37;
p. 38,654).

On 25 December 1991,

“the President of the Soviet Union, Mikhail Gorbachev, resigned”.
(‘Keesing’s Record of World Events’, Volume 37;

p. 38, 654).

and:

“the Russian Supreme Soviet changed the name of the RSFSR to the ‘Russian Federation.’”

(‘Europa World Year Book 1997’, Volume 2; London; 1997; p. 2,755).

The Russian Federation:

“assumed the USSR’s seat on the UN Security Council, and all Soviet embassies became Russian embassies”.

(‘New Encyclopaedia Britannica’, Volume 28; Chicago; 1997; p. 1,024).

On 26 December 1991,

“the USSR Supreme Soviet voted a formal end to the treaty of union that had been signed in 1922, and dissolved itself”.

(‘Statesman’s Year-Book: 1997-1998’; London; 1997; p. 33).

Conclusion

It is sometimes said that the liquidation of the Soviet Union in December 1991 – seventy-four years after the socialist revolution of November 1917 – demonstrates the failure of socialism and the failure of Marxism-Leninism.

But it was not a socialist society which was liquidated in 1991. As has been demonstrated in this book, that had been accomplished many years before. under Khrushchev and Brezhnev.

What was liquidated in December 1991 was a capitalist system masquerading as ‘socialism’, but with all the social evils inherent in any capitalist society. The leaders of the soviet union from 1953 onwards were not Marxist-Leninists but revisionists – capitalist politicians masquerading as ‘socialists’.

The strength of socialism as it existed under Lenin and Stalin is demonstrated by the failure of attempts to destroy socialist Russia openly in the wars of intervention and to destroy the socialist soviet union openly in the Nazi invasion of the 1940s.

Indeed, the fact that those who ultimately brought about the liq-

uidation of the soviet union could only do so by pretending to be 'socialists' and 'Marxist-Leninists' testifies to the strength of socialism and Marxism-Leninism, not to its weakness.

The fact it took almost forty years of this pseudo-socialist capitalism, before its authors felt it safe to attack socialism openly is similarly a testimony to the strength of socialism.

History shows that the change from one social system to a more progressive one, is often not merely a long process, but a process interrupted by one or more steps backward.

The peoples of the former Soviet Union are learning bitter lessons from the backward step taken by their country:

Firstly, that adherence to the principles of Marxism-Leninism, and rejection of all revisionist deviations from those principles, is essential for the working class of all countries;

Secondly, that the way forward for the working people of the former Soviet Union is to rebuild a genuine Marxist-Leninist party free of all revisionist trends, to win for that party the leadership of the working class, and to carry through a new socialist Revolution which will take fully into account the lessons of history.