ONCE MORE ON PROFIT AND THE ABSENCE OF EXCHANGE.

A fault line runs through most of the analysis of the economy of the USSR. It is this, an analysis of the political superstructure of society is superimposed on the economy. Thus because this political superstructure is oppressive and anti-working class, the economy must in some way be a form of capitalism. It's most grotesque description is of course state capitalism.

Karl Marx's opening paragraph in Volume 1 of Das Kapital contains the famous words that the wealth of capitalist society is composed of commodities and that therefore his analysis must begin with the commodity. This as we now know is the correct starting point though it took Marx years of toil and missteps before he reached this conclusion. It is true of course that commodity production preceded capitalist commodity production, but it is only in its ultimate form, that of capitalist commodity production that it becomes the generalised form, the dominant form, the wealth creating form.

A commodity is a product of labour produced, not for consumption, but for exchange. Exchange of course is not an end in itself, but a step the commodity passes through in order to be consumed. We may therefore describe the commodity under capitalism, as a product that is produced privately but consumed socially.

The nexus that unites a society where production is private but consumption social is of course exchange. In such a society the labour of the individual or groups of connected individuals only becomes part of the labour of society through first being exchanged. It was this phenomena that enabled Marx to describe labour that produces commodities as labour that is indirectly social, labour that requires to be exchanged before it can be consumed by society.

We may conclude these preliminary remarks by saying that production which began in its infancy as isolated private production for private consumption, which then progresses to a growing share of this labour being exchanged, as specialisation deepens, finally arrives at capitalist commodity production where most (but not all) private production is intended for social consumption, is but a passing contradictory phase in the economic march of humanity and it is bound at some stage to be resolved in the form of social production for social consumption – a socialist then communist society.

The point we referred to is that Marx is analysing the precise form of labour described by commodity production. That it is indirectly social. In such a society the law of value prevails. Labour produces exchange value which is circulated through the medium of money. Money was the golden bridge over which passed the products of private labour into the realm of social consumption. Now that bridge of course is made of paper buttressed by state support to be used only for as long as confidence exists in the ability of the state to support it.

The law of value describes two phenomena. That the labour of the individual, which is a cost to that individual, takes the form of the value of the product. Secondly that this value is measured by money and is expressed as price. Price is the money name for the value and hence the labour contained in the each and every commodity.

The question that is now posed is this, does money accurately measure the labour time in each and every commodity. This would be the case if exchange was always equal. Equal exchange implies equivalence, namely that the value given up (the commodity) and the value received back (money) are of equal magnitude. But if exchange was always equal, as Marx pointed out, each industry would suffer multiple prices and there would be multiple profit rates between industries of differing compositions.

We know this does not happen in practise because competition yields a unitary market price within a single industry and a trend towards an average profit rate between industries. For this to happen exchange has to be unequal. And if exchange is unequal it means prices must deviate from values within most parts of the economy. In some parts prices rise above values and in others they fall below values such that the plusses and minuses are cancelled out. There is thus an elastic relation between prices and actual costs of production, which is the socially necessary labour times crystallised in individual commodities.

Understanding the Profit Motive.

The profit motive as we are about to understand, depends on unequal exchange. In every industry a single market price prevails. If one company seeks to sell above this price in the proximity of others, it will find no takers. If another company sells below this price it will find itself swamped with customers. The former company will find it wise to lower its price, while the latter company will be stupid not raise its price.

The question is how does competition transform multiple individual prices into a single market price? To understand this levelling out process in its simple form, we choose an industry which has an average composition of capital and where demand and supply are in temporary equilibrium. Let us call this industry Mu (it is Greek and worth looking up).

In Mu there are 5 individual companies. They each employ different quantities of means of production and different numbers of workers. As a result different levels of productivity prevail between them. There cost structure is detailed below. In addition we assume competition has created a common wage and that in all cases the rate of exploitation is 100%. Individual values (the actual cost per item) in A through to E are composed of c + v + s, where

c stands for capital consumed (materials, energy and wear and tear being the principle ones).

v stands for the variable capital spent on wages, and

s stands for the surplus value (unpaid labour).

Table 1.

	c	v	s	individual value
Company A	70	20	20	110
Company B	60	30	30	120
Company C	50	45	45	140
Company D	40	60	60	160
Company E	30	70	70	170

We can see how individual values or individual costs of production vary from £110 through to £170. Company A is the most productive and Company E is the least productive. Company A uses relatively more machinery and relatively less workers, while Company E uses relatively less machinery and relatively more workers. That is why the c is bigger in A while v is bigger in E. In addition, we can say that the numbers describe the fact that workers in Company A are much more productive than Company E which is why the individual value in A (£110) is much lower than in E (£170)

If we add up all the individual costs of production we arrive at £700. If we divide it by their number, 5, we obtain £140. £140 is the simple average cost of production or value for the industry. We note it coincides with the cost of production to be found in Company C.

As demand and supply are in temporary equilibrium does that mean the market price is also £140? In other words do these items sell for £140 in the market? Not quite. What we have not factored for is whether the number of items produced by each company is the same. The answer is that they differ in both their output and their productivity. In a given time, say a week, Company A produces 200 items, B produces 150 items, C produces 100 items and D produces 75 items and E produces 50 items giving a total of 575 items produced each week. Now the tables look like this.

Table 2.

	c	v	s	weekly value
Company A	14000	4000	4000	22000
Company B	9000	4500	4500	18000
Company C	5000	4500	4500	14000
Company D	3000	4500	4500	12000
Company E	1500	3750	3750	9000
Totals	**£32500**	**£21250**	**£21250**	**£75000 (total weekly value)**

The value of the total weekly output for industry Mu is £75000 and is contained in 575 items. If we now divide £75000 by 575 to find their average value, we find it to be £130-43. The alert reader would have noticed that this is somewhat lower than the earlier average of £140. It is in fact £9-57 lower. And so it should be because here we are no longer dealing with simple averages but weighted averages. This weighted average labour time is of course socially necessary labour time.

Weighted averages are different because they take into account not only individual values but the weight of production (number of items) at each level of value. The weighted average in our example is lower than the simple average because the weight of production in A (200 items) outweighs for example the production in E (50 items). And because company A produces more cheaply than does company E, the weighted average is dragged down below the simple average.

It is this weighted average of £130.43 that prescribes the market price. In other words this is the price each company is now being forced to sell their products for. And so it can, because the market price multiplied by the number of items sold should yield the total value of production. (£130.43 x 575 = £75000)

Let us now look at what happens when industry Mu sells each item at the market price of £130-43.

Table 3.

	c	v	s	sum of market prices
Company A	14000	4000	*8086*	26086
Company B	9000	4500	*6065*	19565
Company C	5000	4500	*3543*	13043
Company D	3000	4500	*2282*	9782
Company E	1500	3750	*1272*	6522
Totals	**£32500**	**£21250**	**£21250**	**£75000 (total value)**

We notice two things. The totals do not change. Only s has changed. S which makes up the profits of each company has either risen or fallen. The two most productive companies A and B have seen their profits rise most while the two least productive companies D and E have seen their profits fall most.

In other words there has been a redistribution through the market price of surplus value from the least productive (higher cost) companies to the more productive (lower cost) companies. Companies D and E and to a lesser extent C have lost profits to A and B. Below we list the redistribution of profits and we note that it leaves a zero balance;

Company A	+£4086
Company B	+£1565
Company C	-£957
Company D	-£2218
Company E	-£2478

The market price has not produced more profits nor less profits, rather all it has done, is to redistribute them between the 5 companies within industry Mu in the manner shown above. Company A and Company B make extra profits. Company C, D, and E lose profits. The extra profits and the loss of profits cancel each other out. What has made this redistribution possible is unequal exchange. Some of the companies have benefited from this inequality, while others have lost. Company A and B have gained and company C, D and E have lost. When exchange is equal prices equal values. When exchange is unequal prices deviate from values. In Companies A and B prices rise above their individual value and in Companies C, D and E prices fall below their individual value or cost of production.

Let us look more closely at what has happened. In the case of company A, it makes a total profit of £8086. This £8086 is composed of the £4000 its own workers produce, and £4086 in extra profits it gets via unequal exchange. This £4086 has been produced by the workers in Companies C, D and E in varying proportions. Unequal exchange means that instead of the owners of Companies C, D and E receiving all the unpaid labour of their workers, most of it is lost to their more efficient competitors. In this sense the owners of Company A are not only exploiting their own workers but the workers of their less productive competitors as well.

Like high pressure moving to low pressure so profits move from high cost companies to low cost companies through unequal exchange. It is unequal exchange that makes the capitalist system tick and it is money that makes unequal exchange possible. If exchange was equal, what a company gives up in exchange value it receives back in the form of money as an equivalent amount (money being the universal equivalent). If it receives more or less and not an equivalent amount, exchange is unequal. So, Companies A and B are overpaid and Companies C, D and E are underpaid.

It is unequal exchange that puts the motive into the profit motive. Why? Because the purpose of investment is to increase profits immediately and this would not be possible without unequal exchange. If exchange was equal, the reverse would be the case, there would be an immediate loss of profits which would kill off investment. This phenomena has escaped the attention of most of Marx's successors. Investments improve productivity and therefore lower costs. If these costs can be driven down below the market price, then that company will benefit from unequal exchange, it will received extra profits. This is what is now happening in industry Mu. In desperation, Company E seeking to stop the haemorrhaging of its profits and invests in the latest technology. By raising the productivity of its remaining workers it reduces its cost of production. The results are expressed below.

Table 4.

	c	v	s	individual value
Company A	14000	4000	4000	22000
Company B	9000	4500	4500	18000
Company C	5000	4500	4500	14000
Company D	3000	4500	4500	12000
Company E	3000	1000	1000	5000
Totals	**£34000**	**£18500**	**£18500**	**£71000 (total value)**

First let us look at the industry as a whole. We presume the quantity of items produced remains at 575 items. But its total cost of production or value is now not £75000 but £71000 a reduction of £4000 due to changes in Company E. The weighted average falls from £130-43 to £123-84 due to the £4000 reduction in industry wide costs or value. Everything being equal we may assume that the market price falls to £123-48 as well, though with this reduction in market price over time demand will increase and the number of items produced by Mu will also increase.

We can now turn to the changing fortunes of Company E. Company E has transformed its production process. We can tell that it has cut its workforce by almost three quarters because the variable capital it spends on wages has fallen from £3750 to £1000 and we assume wages remain unchanged. The first thing to notice is that in Table 1 the workers in Company E originally produced £3750 in unpaid labour or surplus value. Now they only produce £1000.

If the owners of Company E were aware of this they would be heartbroken. Why oh, why did we introduce this new technique they would weep? Before our workers produced nearly four times as much unpaid labour. However the capitalists are not aware of this. In fact the opposite is the case. They are overjoyed because their visible profits have actually gone up.

What has changed is this. When Company E was producing at a value of £170 it was on the losing side of unequal exchange, and now that it is producing below the market price it is on the winning side. Instead of losing profits to its competitors it is now gaining profits from its competitors. The redistribution flows the other way. Now Company E is exploiting not only its own workers but the workers in the less productive companies.

Originally, when the market price was £130-43 and Company E's individual cost of production was £170, it lost £2478-50 in profits altogether. This reduced its profits from a potential £3750 down to a realised £1272. Now that its individual cost of production is only £100-00 compared to the new market price of £123-84 it makes an extra profit of £23-84. Once it has sold its weekly lot of 50 items it now makes a profit of £2192-00, an increase of £920-00 compared to £1272-00 before.

We can now see the importance of unequal exchange. If exchange was equal, meaning that the value received back in money equalled the value given up in the form of the item sold, the profit motive would collapse. It would mean that Company E's profit would have fallen from £3750 to only £1000 as a result of reducing its work force and reducing its total labour time and unpaid labour time. This is at the heart of Marx's distinction between concrete labour and abstract labour.

(If prices were attached to concrete labour, that is individual values, then not only would we have many prices as discussed before, but every time a company reduced its labour time including its unpaid labour, its profit would immediately fall. In the case of Company E it would fall from £3750 to only £1000 because of the fall in price from £170 to £110. We ask the reader to bear this in mind as it has relevance to the issues involved in pricing in the USSR.)

All investment has only one logic under capitalism and that is to yield more profit. And to do that labour times must be reduced through improving productivity. That this reduction in labour time is met by a rise in profits initially, instead of the expected fall, is due to unequal exchange, whereby that company's loss of labour time is more than compensated for by its sucking in of additional labour times from less productive competitors.

We can now see the importance of the methodology adopted by Marx. He understood the commodity form of labour to imply that labour under capitalism, is only indirectly social. To become social it has to first be exchanged. In Volume 3 of Capital, when he examined capitalism in its complex form, he recognised that exchange had to be unequal and it is this inequality, this redistribution of surplus value within an industry and between industries that makes the system dynamic.

While the deviation of prices from values makes capitalism dynamic it presents communists with particular problems. If at an individual level prices deviate from values or what is the same thing actual costs of production, then we do not know what anything really costs to produce. After the revolution this unravelling of prices will have to be undertaken to make planning objective. All that the author is willing to say at this point is that many,

many people will be astounded when they realise what things actually cost to produce, knowledge of course that is needed to make rational consumer choices.

Profit and the USSR.

Marx's priority was to describe the social nature of labour and its appropriation. We have already joined Marx in identifying labour under capitalism to be indirectly social. To become social it had to be first exchanged. It was the act of exchange, its conversion into money that rendered it social.

But exchange has a second quality. It is the point at which the capitalists profit from the unpaid labour of their workers in production. As the labour expended in production is converted into money at the point of exchange, so the surplus value is simultaneously converted into profit. The capitalists become richer because the money they have received exceeds the money they have paid out to have these commodities produced. If they are unable to convert their commodities into money, sell them, then of course all the labour contained therein is lost.

This then is the essence of Marx's method, the analysis of the process whereby the labour of the individual becomes part of the labour of society and becomes part of the property of the capitalist class. A process which becomes more complex the more it is developed. Hence the movement described in Volume 1 of Das Kapital, from commodity, to forms of value, to money, to capital, to labour power, to surplus value, to accumulation of capital. Through this process Marx describes the unique Capitalist employment and appropriation of unpaid labour, at the point of exchange, through the market mechanism that renders capitalist appropriation incomparable to other modes of appropriation. We will return to this when we deal with the mode of appropriation in the Soviet Union.

And with this in mind we can now turn to the Soviet Union and continue to use the method of enquiry developed by Marx. The Soviet Union was the first country in history to abolish private ownership of the means of production. That the conversion was trapped at the stage of state ownership rather than the ownership of the proletariat is not our major concern at this point, but will be dealt with later.

Our point of departure here is the abolition of exchange. After 1928 production was not for the market but for the plan. Labour was now directly socialised labour. It was no longer indirectly social as is the case in a market economy whose highest expression is capitalism.

Despite abolishing private property Stalin continued to promote the idea that the law of value dominated in the economy albeit it in a modified way. But the abolition of the market had abolished the law of value. The reason Stalin resurrected it, had nothing to do with economics, but with politics. After all, the law of value is something mysterious, its invisible hand operates in unpredictable ways, and its elemental forces cannot be withstood. Stalin used the law of value as a veil to mask what was happening in the economy. If inflation roared through the economy, blame it on the law of value. Mistakes in the plan, blame it on the law of value. Stalin hid behind the law of value.

The Soviet Union was now a socialised economy. Let us repeat this. Based on objective labour, the USSR was socialised. It was neither capitalist nor socialist. It was an economy where the labour of the individual immediately became part of the labour of society, but where workers were also alienated from their product by a parasitical bureaucracy.

In a socialised economy of any description, the rule of profit is replaced by the role of objective prices with society being rewarded for its efficiencies and productivity through falling prices. We will not elaborate on this as this has been done elsewhere (*From Value to Real Prices).* But the Soviet Union could no more introduce objective prices, than a priest could honestly confess "there is no god, the church invented him, and my job depends on me convincing you to believe in him". To hide their parasitism, the bureaucracy had to manipulate prices. Prices ranged from the fictitious to the partial and while it served to disguise the parasitism of the bureaucracy it deranged the economy.

For only a brief time an attempt was made to cost the plan in order to determine its economic viability and establish a financial discipline. This occurred between 1946 and 1949. No sooner had financial regulation been introduced then it came into conflict with planning based on physical quantities – material planning. It revealed how uneconomic some of the crude planning decisions were. It therefore acted to disrupt the 4th Five Year Plan and delay the 5th Five Year Plan. Stalin rewarded the architect of this attempt to bring financial discipline to the crude plan, Kaznesensky, by executing him in 1949.

Never again would the bureaucracy return to the financial regulation of the plan. They remained welded to material balances, to working out what each factory could produce and trying to synchronise their output on the basis of kilos, metres, litres and other physical units and qualities. However, by the late 1950s the absence of financial discipline was beginning to show up in growing waste. Unwilling to repeat the experience of 1946 to 1949 the bureaucracy did what a bureaucracy does, the wrong thing. It turned back to profits as a means of improving the performance of the economy.

But profits turned out to be counter-productive helping derange the economy even more. Had the bureaucracy understood Marx, which they could and did not, they would have recognised the futility of trying to use profits to organise their economy. The profit motive belongs to a society based on indirect labour, on exchange. It has no place in a socialised economy.

Earlier we spent much time examining industry MU. In particular we looked at Company E within it. We saw how company E transformed itself from an above average to a below average cost producer by reducing the labour time it took to produce its commodities. Originally E's share of the labour time of industry Mu was 12% (£9000 divided by £75000 Table 2). After its productivity drive this falls to 7% of the total (£5000 divided by £71000 Table 4) and its share of surplus value or unpaid labour (s) also fell from 5% of the total (£3750 divided by £75000 |Table 2) to 1.4% of the total (£1000 divided by £71000). And yet unbelievably, despite its share of the labour time and the unpaid labour time falling its profits increased. Capitalism is truly magical and its wand is unequal exchange.

Now let us turn to an economy where exchange has been abolished and with it the possibility of unequal exchange. We refer of course to the USSR. Let us see what happens when labour times are reduced as a percentage of the total labour time of such a society. Here we will not be looking at individual enterprises within an industry but at the industry as a whole. That removes the awkwardness of having enterprises within that industry delivering differing levels of productivities and efficiencies.

We assume around 50 industries but our enquiry is fixed on only one of those industries, the steel industry which consumes 4% of the labour time of society. In Roubles let us say R100bn.

It looks like this,	wage and material fund	= R75bn
	Profit and tax margins	= R25bn (33.3%)
	Total	= R100bn

We therefore recognise that the profit and tax margin is one third of the "cost price". How did the planning bodies arrive at these figures? There would have been a torturous negotiation between the industry and the planners to arrive at an estimate (compromise) of how many tons of steel products the industry could produce over the next five years. Simultaneously the steel industry would aggregate the number of hours of differentiated labour needed to produce that steel. These would then be added to all the other industries, distribution, farming etc to arrive at the total plan and the total number of hours needed to accomplish it.

Returning to the steel industry. On the one side of the ledger would be added up the millions of tons of steel, and on the other the hundreds of millions of hours of labour needed to produce it. The steel would go forth from the industry to become the inputs for other parts of the economy, construction, cars, railways, tanks etc. Coming back would be the roubles to replenish the wages and materials fund. Clearly the greater the number of hours agreed, the greater the share of the total wages fund, the more roubles that would be received by the steel industry.

Of course the wages fund did not represent the total labour time expended by workers. Prices in the USSR may have been fictitious, but they had one consistency. Labour was always under-priced. The wages fund paid for

only part of the working day. The unpaid part took the form of the margins added to the wage fund. These margins were composed of tax and profit.

Not only did the planning authorities have to measure output and hours, they had to cover the state budget. This was set as a definite amount of roubles which had to be added to the wage fund. This was merely a joining up of the paid and unpaid labour of the working class. To pay for this budget a fixed margin was added to the wage fund of each industry, and while it could vary between industries, its yield covered the state budget. In this way the burden of the budget was distributed between the industries more or less in proportion to the concrete labour times expended in each industry.

The accounting convention of the plan was thus cost plus. In other words, to the costs of the industry, primarily its wages fund, was added a margin. As a result roubles flowed into the industry and to state coffers. Of course this accounting convention did not add up to an authentic or accurate pricing system. How could it be? Labour was under-priced, but by how much was anybody's guess. As for the margins, they were more an expression of the needs of the bureaucracy than an actual representation of unpaid labour. Hence adding up the wages fund and the state budget did not price labour time accurately. Rather they were figures conjured up by the planning authority to yield the financial result that the plan required.

This elemental and false accounting is very well described in Bill Jeffries acclaimed dissertation *FROM THE CENTRALLY PLANNED ECONOMY TO CAPITALIST GLOBALISATION: HOW ECONOMISTS UNDERESTIMATED THE GROWTH OF THE WORLD MARKET* and while will soon be published in book form *FROM CAPITALISM TO COMMUNISM AND BACK AGAIN.* Here he describes how the planning bodies were forced to rely on the aggregation of concrete hours of labour; that is treating labour as mere units of labour. This crude approach lay at the heart of the inefficiencies that bedevilled this economy.

It is therefore not by accident that we use the accounting convention of cost plus to describe our examples. In our first example of the steel industry we costed its production at R75bn plus R25bn. What we did not disclose is that this had been achieved by means of forced overtime amounting to 20% of the hours worked in the industry. Steel workers however are no longer willing to tolerate these extra hours. The managers have two choices, firstly to innovate or to add in extra workers.

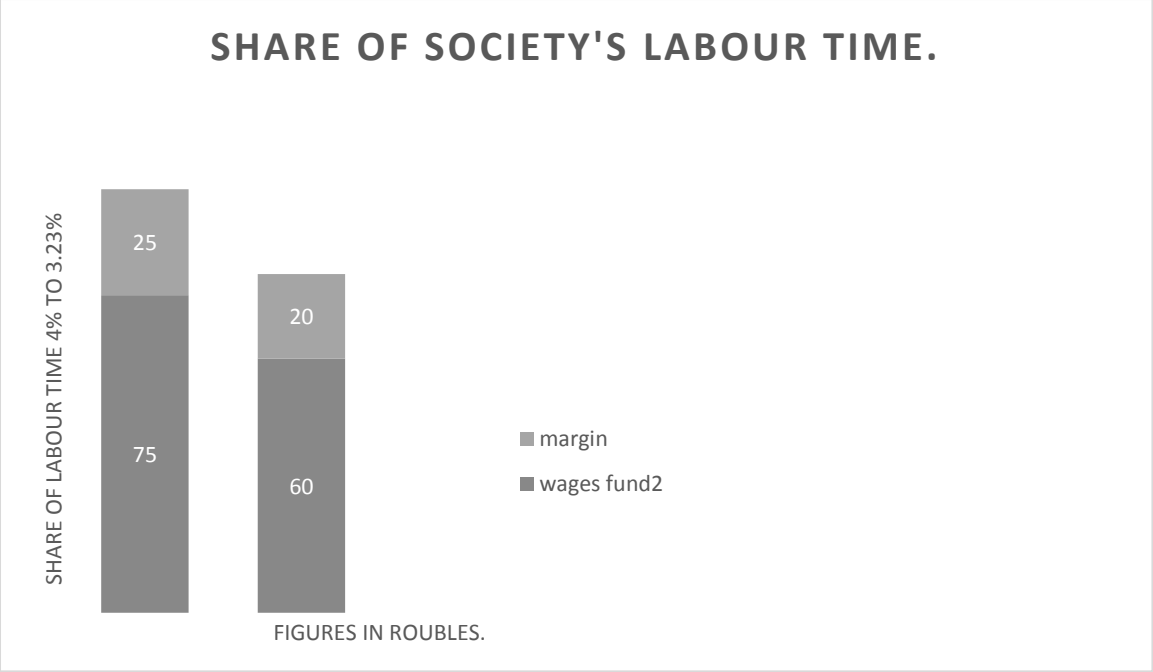
Let us take the first case, where they innovate and introduce techniques which reduce labour time. These figures now form part of the overall plan. The result is they now produce the same quantity of steel but with 20% less labour time freeing workers from overtime. (We also assume that less materials are wasted.)

wage and material fund	=R60bn
profit and tax margin	=R20bn (33.3%)
Total	=R80bn

Something strange has happened. Instead of the industry being rewarded by higher taxes and profits it is now rewarded by lower profits. Despite the margin remaining at 33.3% the mass of profits and tax has fallen by R5bn from R25bn to R20bn. The planners would be bereft because there is now a shortfall in the state budget of R5bn. The managers in the steel industry who have failed to meet their contribution to the state budget would be under a cloud. Here we have the opposite result to that in a capitalist economy. The margin yield of R20bn has fallen rather than risen. The difference is that in a market economy labour is indirectly social while in a planned economy it is directly social. Two different realities.

Going further. Before the reduction in labour time the steel industry used up 4% of the labour time of society. Now it reduces its labour time by 20% which means its share of the labour time of society falls from 4% to 3.2% a reduction of 0.8%. Consequently the labour time of society must also fall from 100% to 99.2% a simultaneous fall of 0.8%. The steel industry's share of society's labour time is now 3.2% of 99.2% or 3.23%. If the distribution between the wages fund and the margin is unaltered both must fall proportionately.

We can show this visually in a bar graph. In the first bar we have the original position of the steel industry when it consumed four percent of the total labour time. When it reduced its labour time 20% this led to its fall in labour time from four percent to three point two percent as represented by graph 2.



Let us presume the second case, that instead of introducing a new technique of production leading to reduced labour times, the Stalinist management of the steel industry decide simply to add more capacity on the same basis and employ 20% more workers to run this additional capacity. In this case we would not find any change. Profits and tax would remain unaltered at R25bn and output would remain at R100bn. So it would be advantages for the management to opt for duplication rather than innovation. They continue to receive the same amount of roubles R75n and they pay the same margin R25bn. And of course, duplication is so much easier, there is no need for retooling, retraining and all the disruption that goes with innovation.

The key here is that the absolute yield of the margin has to be preserved. A yield of R25bn is preferred to a yield of R20bn especially if the plan calls for the steel industry to cough up R25bn. It was more than a bureaucrat's job was worth to fail to deliver the yield.

It may seem fantastical that the profit and tax margin led to an expansion of labour time, just as it is fantastical that it leads to the opposite under capitalism because of unequal exchange. But the former leads to duplication while the latter leads to innovation making it dynamic. Of course it may be argued that prices could be adjusted to alter the margin. For example if the transfer price of steel did not fall, the margins in the steel industry would have actually gone up when they innovated. The fall in the size of the wage and material fund from R75bn to R60bn would have seen a rise in the margin from 33.3% to 66.7% and in amount from R25bn to R40bn as the price of output remained at R100bn (R100bn – R60bn = R40bn or 66.7%).

This would be an academic exercise. We have seen that the material balances could only be financed on a cost plus basis. Those who propose that prices could be distinct from this are approaching this unique economy from a capitalist point of view, namely that sellers find a price waiting for them in the market, and this price seems to have an independent existence. While it is true that the planning bodies did manipulate prices to favour one industry over another, in reality they could not stray far from the convention of cost plus, otherwise the wages fund would not be replenished and nor would the state budget be financed. A chaotic system would have been rendered inoperable.

Latterly we have talked simply of the margin, and not a tax and profit margin. Essentially they are the same, just as profit, rent and interest are concrete expressions of surplus value. Profit and tax represented the direct appropriation of unpaid labour. The only difference was the direction of travel. The heading for tax is always into state coffers, whereas profits could head both ways, some of it back to industry and the rest to the state.

And so this reliance on margin had to distort economic behaviour, whether it was profit or tax. Increasing productivity and reducing one's share of the labour time of society adversely affected the margin whereas

increasing labour time added to it. In an economy where labour time becomes part of the labour of society directly, reducing labour times also reduces unpaid labour times which in turn reduces the yield on margins. A margin whether profit or tax becomes counter-productive, its pursuit leads not to an economising on labour time but the wasting of labour time.

There is another point to consider. The less efficient plants received more roubles than the more efficient plants, because as Bill Jeffries points out, they were rewarded on the basis of the total number of concrete hours of labour expended in that plant. Again the opposite to capitalism. The role of profits could not prevent this because as we have seen, profit margins do not encourage a reduction in labour times. Only an objective pricing mechanism could, one which rewards society collectively through falling prices for falls in labour time. Such a pricing system was one of the first victims of the Stalinist counter-revolution.

Earlier we talked of how Marx traced the labour of the individual in the process of becoming social and being appropriated. Not only did exchange convert labour into money, it also converted surplus labour (value) into profits. The appropriation of labour under capitalism, is specific, at the point of exchange, through sale when it is converted into money. Consider how far this is removed from the USSR. Here it takes the form of tax. The great lever of private property is replaced by the lever of the state. Here exploitation is planned, a definite share of the social product will be appropriated by the state for the benefit of the bureaucracy that monopolises state power.

And yet our state capitalists are oblivious to this. They base their analysis on the political appropriation of the working class. They acknowledge that the working class is now separated from the means of production, and yet they do not examine the specific form in which the “surplus labour” of the individual is appropriated. If they had they may as well have called it state feudalism, because the use of taxation as the lever of separating workers from their product has more in common with feudalism than it does with capitalism.

The author has scoured the literature and found only confusion, an abandonment of Mars’s method of enquiry. How else to explain why it has taken so long to understand why the role of profits or margins of any description has no role to play in a socialised economy. No more, it disorganises production and it distorts economic behaviour, because its increase requires the expansion of labour time not its diminution. Instead of being productive it is counter-productive. Its result is the opposite from that found under capitalism.

In conclusion we may now turn to the Marx once again. In his *Critique of the Gotha Programme* Marx spoke of deductions, not additions. In a democratic socialist society, the social product is fully priced. It represents all the labour time expended in producing it over a given period. It is objective, based on weighted average labour times. From this quantum, society decides how much is to be put aside for social needs and to which areas of need they are to be applied. This leaves a balance, a quantum destined for personal consumption, whose distribution is regulated by the equal right; consumption in proportion to contribution.

This frees up a socialist society to adopt a pricing policy that is objective. This is impossible in a society like the USSR with its added margins. Firstly to make space for a margin labour must be under-priced. This was the purpose of inflation in the First Five Year Plan. By how much? That is any body’s guess. Then the margin must be added back. By how much? That depends on the needs of the bureaucracy.

And so we get fictitious pricing. Pricing revisions which could have reduced the extent of price distortions based on aggregated but mispriced concrete hours of labour, were few and far between. The lack of objective pricing gave rise to a disorganised and wasteful economy robbed of any dynamic. Such an economy had to fail and did fail.

Brian Green July 2014