From value to real prices.

(An essay on the USSR and fictitious prices)

In the pamphlet "Planning, the Future" the issue of pricing was dealt with in a rather fragmentary way. This was due to the fact that I tried to maintain a degree of continuity with the 1999 edition which contained fewer facts and less analysis of fictitious pricing in the then USSR. This essay seeks to correct this fragmentation.

Our starting point has to be that as soon as the labour of the individual becomes part of the labour of society in any way, it takes the form of a cost, and it is this cost that is transferred to the product. In a market economy this cost assumes the form of exchange value, or 'value in general'. Marx described the commodity as a product produced solely for exchange and socially as the embodiment of value.

In Volumes 1 and 2 of *Das Kapital*, Marx describes commodities as products of labour. In Volume 3 he describes their circulation as products of capital. The essential difference is this: in Volumes 1 and 2, differences are ignored so that exchange is held to be equal. On the basis of this simplification, prices correspond to values. In Volume 3 exchange is allowed to be unequal so that prices diverge from values. The latter is in fact the way commodities circulate. If prices always equated to individual values, then each industry would produce the same item but with multiple prices. Between industries, profit rates would vary enormously and there would be no averaging out of the rate of profit. But we know this does not happen. Competition within an industry results in a single market price and between industries a trend towards average rates of profit. All this is due to the divergence of market prices from social values.

From this we can draw the general law that, at a concrete level, or what is the same thing, the actual complex level at which capitalism operates, individual prices seldom coincide with individual values. Although they remain connected, with values exerting a gravitational push and pull on prices, the relationship between values and prices has become elastic. Further, although it does not concern us here, Marx developed the consequential laws that governed these divergences and also the limits within which they can diverge.

That prices can diverge from values, that is to say, the fact that prices can diverge from labour times, is due to the fact that the labour of the individual in a market economy is only indirectly social. To become social it has to first be exchanged, and if typical exchanges are unequal, then market prices do not measure labour times accurately or even approximately.

In the 3 Volumes of *Das Kapital,* Marx describes value in an increasingly complex way. His most detailed definition is to be found in Chapter 10 in Volume 3 entitled *The Equalisation of the General Rate of Profit.* Here he uses the terms 'market value' and 'social value' alongside socially necessary labour times. Later he talks of how the market value is altered when there is a preponderance of efficient firms in an industry versus a preponderance of less efficient firms in another industry.

What Marx is describing is the weighted average as opposed to the simple average determining the market value of a product. (Wikipedia has a wonderful graph which can be found on en.wikipedia.org/wiki/**Weighted_median** which visually demonstrates the difference between a simple average and a weighted average.) For our part, we will prepare an arithmetic presentation of the difference between simple and weighted averages. We will examine four firms in a single industry. Each has a different cost structure or, what is the same thing, individual labour times differ between them as does their output.

Let us say that the newly added individual values for the commodities produced in these four firms are £2+£4+£6+£8 respectively. So the most efficient firm corresponds to £2 and the least efficient to £8. If we add these values together to average them out, they amount to £20. If this £20 is then divided by the 4 firms in the industry, we arrive at the simple average value of £5 for the industry.

This simple average is the average labour time for the industry. However, it may be the case that each firm produces different amounts of products. So let us factor for that. Each bracket now contains the individual value of the product multiplied by the number of products produced at that value, thus

(£2x10units) + (£4x8 units) + (£6x6units) + (£8x2units).

By multiplying each bracket we arrive at £20+£32+£36+£16 which equals £104. £104 is the total newly added value of all the commodities produced by this industry in a given period. Let us call this industry Alpha. If we now divide this total of £104 by the number of units produced (26), we arrive at a new average of £4. This we note is £1 lower than the simple average of £5.

This new average is the weighted average because it takes into account the number of commodities produced at each value point. **This corresponds to socially necessary labour time**. If we look more closely, we find that more commodities are produced at the cheaper end than at the more expensive end: 10+8 compared to 6+2, there is thus a preponderance of cheaper commodities and that is why the weighted average of £4 falls below the simple average of £5.

Alternatively, let us look at the case where we are dealing with an industry where there is a preponderance of higher cost producers; thus

(£2x2) + (£4x6) + (£6x8) + (£8x10) = (£4) + (24) + (£48) + (£80)

Here in industry Beta the total value amounts to £156 which, when divided by the number of commodities (26), now yields a weighted average of £6. Here the weighted average is £1 higher than the simple average of £5. And indeed this methodology is the correct one. A weighted average multiplied by the number of products will always yield the total labour time expended in any industry. For example 26 x £6 yields a value of £156 in industry Beta whereas 26 x £5 (the simple average) would only yield £130.

If we assume for argument's sake that each figure represents £1 million, then the total value newly added in industry Alpha is £104 million and in Beta it is £156 million. If we assume that one hour's labour is equivalent to £13 then we can say in Alpha a total of 8 million hours were expended and in Beta 12 million hours. (Competition having led to an equalisation of wages between the two industries.)

So how do we determine the socially necessary labour times for each product? Everything else being equal, in Alpha we would divide the 8m hours worked (480 million minutes) by the 26 million commodities produced. This would yield the socially necessary labour time of 18.5 minutes for Alpha. If we did the same in Beta it would yield 27.7 minutes. As proof, we need only divide £13 by £4 and £13 by £6 to arrive at 18.5 minutes in Alpha and 27.7 minutes in Beta.

Now another interesting observation is this. We begin by noting that the weighted average labour time in Alpha is shown to be £4. So if the net market price is also £4 (this is the price all the items in Alpha sell for), each firm would be affected differently. If the most efficient firm producing at £2 is able to sell it products for £4, it would earn £40 not £20. In other words it earns an extra £2 profit per item or a total of £20 for all ten The firm producing at £4 earns no extra profit because its cost equals its selling price - £4 - but the two firms producing at £6 and £8 who have to sell for £4, each lose money. They lose £2 and £4 respectively for each item they sell. As the first produces 6 items and loses £2 on each item, its total loss is £12. The most expensive firm produces 2 items and loses £4 on each item making a loss of £8. Together they lose £20 (£12 + £8). Their losses represents the gain of £20 for the firm producing at £2. In other words more efficient firms producing below the market price make extra profits, and their extra profits come from the losses of the less efficient firms. Money forms the golden bridge over which surplus value passes from less efficient to more efficient firms.

It is less confusing when we represent these figures in a table. What we are representing is

(a) = market price
(b) = individual cost of production
(c) = quantity of items
(d) = increase in profit or loss of profit.

	(a) -	(b) x	(c) =	(d)
(i)	£4	£2	10	+£20
(ii)	£4	£4	8	£0
(iii)	£4	£6	6	-£12
(iv)	£4	£8	2	-£8

Socially necessary labour times therefore reward the most efficient firms (i) and penalise the least efficient ones (iii and iv). The most efficient firms make extra profits and the least efficient make reduced profits or even losses. The extra profit is cancelled out by the reduction in profit (+£20 vs -£12 and -£8). That is the driving force behind the profit motive, the fact that unequal exchange allows more efficient firms not only to exploit their own workers, but the workers in the less efficient firms within their industry.

In this sense, profit is a surrogate for labour times. As labour times fall, everything else being equal, the mass of profits rise. In a capitalist society, based on exchange and exploitation, it is profits that act as the gauge for the fall in labour times. The fall in labour times, multiplied by its number, adjusted for the rate of exploitation, will determine the rise in the mass of profits. In a society, therefore, where the labour times of society cannot be measured directly by prices, profits are the obverse, that is they move in the opposite direction to the movement of labour times and it do so erratically.

One of the criticisms levied against the law of value, based as it is on socially necessary labour times, is that one could make commodities more valuable by simply increasing the labour time expended in their production. We dealt with this facile criticism in the pamphlet, but it is worth repeating

"Why do we use the term 'socially necessary' labour time? Marx used this term to mean labour of average intensity. Clearly a labourer could make a commodity more valuable by taking longer to produce it, by wasting time so to speak, by reducing the intensity of his or her labour. So the value of a commodity is composed of two parts, time and intensity.

A good analogy to explain this is electricity. The term 'Watt' measures electrical power or output. It is equal to Amps multiplied by Volts or, in everyday language, the pressure of electricity multiplied by its volume. Electricity is like a river. The same amount of water flows through it even when it is wider and then narrower. All that happens is the speed or pressure of the water increases as it narrows. So, just as we measure Watts as equal to Amps x Volts, so we measure Total Labour as being equal to its Duration x Intensity. Those who have criticised Marx's Theory of Labour on the basis purely of time, have oversimplified his theory in order to discredit it. In a market based society, competition averages out both time and intensity, thus preventing labour of below average intensity being rewarded."

Accordingly, we understand socially necessary labour times to mean, the expenditure of a quantum of labour, which in turn is a product of its duration and intensity. Competition not only averages out labour times but intensity as well.

In medieval times competition would have enforced a primitive form of socially necessary labour times. If in a given location, a number of producers each produced the same product, a market price for that product would have been established over time. Let us presume that these producers worked five days a week and on the sixth went to market to sell their wares and, once having sold them, would receive the money they needed reappear as buyers in another market.

Every week they would head for the market, having in their possession a certain number of items for sale. The quantity of these items depended on how intensely they had worked and for what duration. In the market they would encounter a price set for each item. Those who worked harder would have more items than those who worked less hard and would therefore walk away with more money. Those who worked with less industry would have fewer items to sell and would walk away with less money.

So each producer would have been rewarded for their labour in proportion to how long and how hard they worked. What applies to these producers applies later as production expanded and specialisation increased. Once the direct producer was separated from his instruments of labour, so that he or she now had to work for another, so duration and intensity assumed a greater urgency. As it now becomes the source of wealth for the employer, that employer will no longer tolerate any shortening of the working day or diminution of the intensity of work, for each imperils his profit.

Once capital dominates society and as its movement organises production, so socially necessary labour times seems to fade from history. It heralds unequal exchange forcing apart prices and values at an industry level. As far as the capitalist is concerned, his selling price is composed of cost price plus the profit margin he is able to obtain in the market. This elasticity between value and selling price, and the myths that arise from these divergences, are the origin and basis for the vulgar economics that followed Ricardo.

Capital moves from areas of below average rates of profit to areas of above average rates of profit. This causes production to decrease in the former and increase in the latter. As a result, prices rise in the former and to fall in the latter. Higher prices raise the rate of profit and lower prices reduce the rate of profit, narrowing the difference between them and aligning them with the average rate of profit. This constant swish and swash of capital redistributes value within industries and between industries. While the sea of capital is always restless, and full of eddies, the currents that flow beneath its surface have a definite direction, always from areas of lower profitability to areas of higher profitability.

More precisely, value flows from industries which employ relatively more workers and relatively fewer means of production to industries where they employ relatively fewer workers and relatively more means of production. Consider a textile mill versus an oil refinery. The mill may employ a thousand workers while the refinery employs less than fifty. Yet the capital invested in the refinery is far, far greater that the capital invested in the mill, perhaps \$2billion vs \$200m because a refinery costs more to produce.

Marx called those industries with a preponderance of workers, ‘industries of below average composition’ and those industries with a preponderance of means of production, ‘industries of above average composition’. In those industries with a lower composition of capital, prices trend below values and in those industries with a higher composition of capital, prices trend above their values. Higher prices compensate the owners of the refinery for their lack of workers by diverting value from the textile mill which employs many more workers.

Of course, to the capitalists in their luxurious yachts, these currents do not register and even if they did, would be a source of complete disinterest as they swill their champagne and toast each other’s success. But for interested socialists it is a legacy. What any item actually costs to produce is obscured by the movement of prices. If we are to plan in the future, all these prices will have to be unravelled and labour times accurately accounted for.

There is a final complicating factor. Money. Price is the money name for the value contained in each and every commodity; from those that endure for years to those that are momentary. Unfortunately, in a capitalist society, money is not a constant. The separation of money from gold, the emergence of truly paper money, allows for money to be debauched.

So prices can rise at the same time that production is cheapened by higher productivity. This masks the cheapening of production. Hence under capitalism, prices do not track the fall in labour times. For example, let us examine a car which sells for £20,000 and which takes a 1000 hours to produce. This means each hour of labour is worth £20. As industrial robots are added to the production line, it now only takes only

800 hours. This represents an increase in productivity of 20% leading to a reduction in labour time of 20%. Measured in money, the car's price should fall from £20,000 to £16,000 - everything else being equal.

It may not. Instead the opposite may be the case. Car prices may rise as prices inflate generally. The reason for this has nothing to do with what is happening in production. It has to do with the debauching of money. Time may be money, but if money is not constant, it measures time imperfectly.

By way of example, let us say a £20 note represented 1 hour of labour originally. It now depreciates so that £20 now represents only 45 minutes. To represent 60 minutes (1 hour) again, requires £26.67. Therefore the car which costs 800 hours is now priced at £21,333. (800 x £26.67) Capitalism is indeed magical, a car which has been made cheaper has actually gone up in price.

In the pamphlet we looked at periods when prices fell. However in the 20th century and the 21st century, the centuries of paper money, the general rule has been one of rising prices – systemic inflation. (I should add a correction. It is not true that workers never experienced deflation in recent history. They did in Japan until 2013.)

Who benefits from this conjuring trick, this ability to make things cheaper but price them higher? The capitalists. They love a gentle increase in prices. Most governments aim for 2% inflation each year. The primary reason for inflation is to rob workers of their increased productivity, which also tends to rise by about 2% p.a. To recoup some of their increased productivity workers need a pay rise that exceeds 2%. Immediately they are at a disadvantage in their negotiation, because their starting point has to be an above inflation wage increase.

Secondly the capitalists like gently rising inflation because it encourages credit formation. Inflation depreciates a debt. If you borrow £100 on the 2nd of January and have to repay it on the 31st of December when inflation has been 2% during the year, the debt is only worth £98 on the 31st December. Inflation makes it easier to repay debts.

So what about deflation? The capitalists hate deflation. If prices fell in line with rising productivity, it is workers who would benefit not the capitalists. A constant wage, in an economy where prices are falling 2% p.a. would represent a wage gain of 2% because the same wage buys 2% more things as their prices have fallen 2%. Now the capitalist employers would have to force down wages year by year if they are to recoup some of the increase in labour productivity. Imagine the paradox where workers sat across from their employers negotiating a fall in their wages year by year instead of a rise. Workers would say, 'Why should I lose wages? I am working just as long and just as hard as I used to.' Their alienation would be reduced.

So we can sum up. Inflation serves the interest of the capitalist class while deflation serves the interest of the working class.

SOCIALISM ENABLES PRICES TO BE TIED TO ACTUAL COSTS WHICH CAN BE MEASURED BY HONEST MONEY.

It is not the market that gives rise to private ownership of the means of production, but the private ownership of the means of production that gives rise to the market. Private property precipitates many capitals that produce anonymously and are connected to each other only indirectly through the market. In a market economy, exchange separates production and consumption. Before goods can be consumed they first have to be sold; that is exchanged - and if they are not sold they cannot be consumed. At its most abstract, all economic crises of capitalism emerge as the breakdown of exchange which divorces production from consumption, leading to overproduction and crisis.

The essential condition for the abolition of the market is the transformation of private property into collective property prior to its dissolution as property altogether. At this point, what was indirect production now becomes direct production. Or, what is the same thing, production and consumption are no longer separated by exchange. The purpose of production has become consumption not exchange.

The law of value no longer prevails, and with it the invisible hand directing investment and production disappears. Now production is planned; it is proactive, no longer reactive. It is balanced, no longer chaotic. The essential condition for planning is knowledge of what things cost to produce so that the labour time of society can be efficiently allocated.

Accordingly labour time now comes into its own. In a socialist society, society is no longer divided between those who work and those who own (whether capital or the land). Now there is only one class, a class of propertied workers. In such a society only one cost of production would be recognised: the labour expended in production, the labour that is applied to materials supplied by nature to enable their transformation into useful things, the labour that is amplified by machinery and equipment to raise its productivity.

Reification and all manner of mystification will end as the producers finally take control of production and become the masters of the production process. No longer will the direct producers be confronted by their product in the hands of another, the essential condition for their exploitation.

At last, and for the first time, prices can be directly and indissolubly tied to actual costs of production, or more precisely to the weighted average labour times needed to produce a given product. The elasticity between value and price is now discarded. Prices will directly describe labour times and prices will immediately respond to changes in labour times once we have an organised pricing system.

In order that this may be so, money needs to become a stable unit of account. It needs to become a measure of universal labour time, derived from an approximation of the total labour time expended divided by its global product. In this we are aided by our statistical inheritance from capitalism - the crude national accounts prepared by each nation. In short, World Net Domestic Product divided by the hours worked to produce it yields universal labour time, setting the standard against which all other labour times are measured

Let us call that standard the Unilat whose letters are derived from *Universal Labour Time Money*. Once set it remains unaltered, allowing us to measure labour times and prices accurately. There are socialists who would argue that we should dispense with money immediately and with it prices. Besides being disruptive in the transitional period following the abolition of private property, it is impossible.

It is impossible because the prices we inherit from capitalism will have to be unravelled over time. It may be the case that the political conquest of state power pales in comparison to the global task of deciphering capitalist prices while maintaining production. So soon however, that prices coincide with their labour times or, what is the same thing, their actual costs of production and society is united, then clearly we can move on. But already prices have undergone an alteration for they are no longer the monetary expression of value but of labour time itself.

There is another overlooked consideration which we need to highlight. We inherit an economy where within each industry, there are plants with differing levels of technology and therefore productivity. Some will be above average some below average. **We need to continue measuring labour times as weighted average labour times**. Otherwise it would be impossible to measure efficiencies between plants. This creates the discipline to progressively eliminate the least and the lesser productive units. Until such time that we can introduce a uniform productivity within each industry there will have to be cross-subsidies. Abolishing prices therefore pre-supposes the elimination of inequalities within industries as well.

In other words, we use the pricing system in order to end the pricing system at a higher stage of economic development and we do so on the basis of realising its full potential first. But that is for a future generation. Like Marx, we will not waste time here needlessly speculating about what is to become of prices, whether their cheapening will make it too costly to account for them so that they will progressively disappear or when, as Marx indicates, money and prices are replaced by electronic vouchers and electronic labour times *(Critique of the Gotha Programme)* where the thing will be described as costing so many hours or fractions of hours. To be sure, we cannot jump over this period, only when the disorganised pricing system of capitalism is replaced by the organised pricing system in the transitional period, is the ground laid for direct measurements, only then can price labels be peeled off to reveal the hours, minutes and seconds needed to produce anything.

Vitally, the central question that needs addressing here, now, is what replaces the profit motive in this transitional economy. In a capitalist society where workers are separated from their labour, profit becomes the inverse measure for the fall in prices. The companies that reduce their labour times below the average receive extra profits and those who do not, lose profits. So what replaces the profit motive? What mechanism is now employed that not only guarantees efficient production, but in doing so shows what a primitive, crude and indirect mechanism profits really were? What mechanism is able to unite society in its common effort, to join in importance the principle "from each according to his ability to each according to their ability"?

The answer is falling prices. Falling prices unite society by avoiding all sectionalism. Workers give of their time and are rewarded by their product. No workers has an interest in wasting time or wasting the time of their fellow workers. To do so would lead to an increase in labour time rather than its diminution.

So long as prices are tied to actual costs, society is rewarded by lower prices. If a four percent global increase in productivity results in a four percent reduction in labour time, this will be reflected in a four percent fall in prices. With "wages" (note 1) unaltered this would represent a 4% rise in standards of living. No one benefits more, no one benefits less. The technicians who invent a machine, the workers who produce that machine, and the workers who work with that machine, all benefit equally from the general fall in prices.

There are some socialists who suggest that "wages" should rise in order to encourage workers to raise their productivity. The problem with this suggestion is two-fold. Firstly it was tried in the USSR. It gave rise to sectionalism. There is only one way to measure individual productivity and that is by the number of pieces it produces – piece rates. If the purpose is to increase the number of pieces, and payment depends on it, work is rushed and that can reduce the quality of production.

What one worker gains, another may lose. If the quality of production suffers in order to increase output, then workers further down the line waste time unpicking mistakes. Under this condition labour times will increase not decrease and society would be punished by higher prices. The object of socialism is not to work harder but to work intelligently, and that means first and foremost collectively. And for that we need a collective mechanism, prices. This is the lesson of Stakhanovism.

Secondly, if labour times are reduced while "wages" go up, labour income will become disconnected from labour times. Here we define "wages" as the labour income destined for personal consumption after we have deducted the funds needed for investment, for education, for looking after the elderly and the infirm, insurance, for state administration etc. etc. For example if workers are rewarded for a general increase of 4% in productivity by a 4% pay rise, while prices also fall 4%, the incongruity is seen immediately. There will be an excess of wages compared to prices. Wages will rise to 104% from 100% while prices will fall to 96% from 100%. "Wages" will exceed prices. The surplus will create a market undermining the plan.

It is of course possible for total wages to rise if the total labour time increases. Total labour time can increase if the number of workers increase or if the average working day is lengthened (we leave aside for the moment the improvement in general levels of skill and we ignore differing intensity as the muscles in the arm between say a man and a woman is irrelevant when both work with power tools, something unknown in Marx's day). The increase in labour time under these conditions is represented by a pro rata increase in production but without a reduction in the actual cost of this production. Hence the additional prices absorb the additional wages.

Returning to universal labour time, we note that not all labour is equal. We inherit a global working class numbering billions divided by skills - with the majority of workers unskilled or semi-skilled. Despite these variations in skill, all workers benefit equally from the fall in prices. To repeat this important point, workers, despite skill differences, benefit equally from the fall in prices. This is the first element of the knot that binds society together.

The second is Marx's famous phrase, 'From each according to their ability to each according to their ability'. In other words, workers receive back in proportion to their contribution to production. It is an equal right. Workers of higher skill who contribute more receive back more than workers of lower skill who have contributed less. It would be idealistic to believe in a common wage. Society cannot rise higher than its economic foundations. This right of equality yields an unequal result. It will take a period of time to raise hospital cleaners, orderlies, nurses to the level of consultants and it will take a richer society than the one we have today.

So individual labour times can and will diverge from the universal labour time which averages out these divergences. A skilled worker will have a higher coefficient of labour and a less skilled worker will have a lower coefficient of labour. A skilled worker's coefficient will sit above the average and the less skilled worker will sit below it. Correspondingly a more skilled worker will have a higher "wage" and a less skilled worker a lower "wage".

We can now turn to the question of wages and prices with regard to skill variation. As workers' skills are increased through training and they achieve a new skill bracket, so their co-efficient of labour will increase. This general increase in co-efficients will push up average labour times and thus the total expenditure of labour - even though the number of workers may not increase nor the working day be lengthened. But because an improvement in skill is associated with an accelerated increase in the rate of productivity, this compensates for the increase in labour. Each product continues to absorb less labour time. Hence, here uniquely, we have the simultaneous improvement in skills, in wages and continued price reductions.

There is a qualification. Not all skill advances may increase productivity. Certain spheres, such as medicine, do not lend themselves to productivity gains unless we hand healing, a quintessential human activity, over to machines. However hospital workers need not be concerned, their standard of living will still rise as prices fall in general.

It is now time to elaborate further on actual costs of production. The final labour time is not equivalent to the labour of the worker currently working on the product. The worker will have used up materials and energy (the product of another worker's past labour). And the worker will have used machinery and equipment to complete his task. So the price of the product is composed of the labour time newly added by this worker, the cost of the materials and energy used up and the wear and tear on the machines and equipment.

This is a simple arithmetic calculation. The only difficulty arises from the decision about how to price wear and tear. Machines and equipment, properly maintained, can last for many years. During that time, productivity would have surged and prices reduced. The replacement cost of a piece of machinery could very well have halved. The question is therefore posed: how do we account for wear and tear? Do we base it on historical cost or future replacement cost?

Under capitalism wear and tear is based on replacement cost. The reason for this is the debauching of money which has nothing to do with what is happening in production. In ten years' time, a Pound may be worth only 60 pence, which is a 40% depreciation. If the machine becomes 40% cheaper as well when measured by labour time, its price will still be £10 million in ten years' time as the debauching of money is equal to the reduction in labour time. But generally, money is debauched at a more rapid rate compared to the cheapening of production. Let us say the machine in question becomes 25% cheaper rather than the earlier 40%. If money was not debauched, it should now be priced at £7.5 million but, because money has lost value by 40%, its price has gone up to £12.5 million. If the owners had put aside only £1 million each year, they would only have £10 million, which is £2.5 million short and could not buy the replacement machine.

Matters are reversed in a socialist economy. Here money does not depreciate, and so we would base it on the historical cost. This gives us the actual labour times expended on a new product. It gives us a precise cost. Now we have the base to measure the saving in labour time new technologies offer us. If this saving exceeds the past labour still embedded in the machine (after deducting wear and tear over the years), it may be worth replacing it. We say 'may' because there are other considerations as well, namely how many products have been planned using these machines.

In other words, the effect on prices will guide investment decisions. Our investment will be directed towards those areas where the achievement of the greatest price reductions are possible. We can now begin to see how much more efficient these decisions will be compared to profit as a guide. Profits respond and ultimately increase with reductions in labour time, but along the way they oscillate as they are pushed here and pushed there by investment decisions in the rest of the economy and by the class struggle varying the rate of exploitation.

It is worth concluding with a few remarks directed at our delusional bourgeois economists who claim such a society would be inefficient. 'Without rent, you will not use the land efficiently. Without interest you will not use capital efficiently!' they will wail. Let us assure them, the pricing system we have described above takes care of all their noble concerns. Their concern is that of the private propertied exploiter who puts his machinery and land above the health and interest of his workers. We will seek to abolish all shifts between 11pm and 8am in the morning as this affects the human circadian clock or cycle with consequential impacts on human health. Does this mean a time reduction in the use of those factories or jet airliners? Yes. Does that mean a loss of efficiency? Yes. Does this mean production has become humane? Absolutely.

WORKERS' DEMOCRACY.

As Marx has stated repeatedly and very elegantly, upon the economic base arises the political superstructure. Marx was also fond of describing the capitalists as sharing the economic cake (surplus value) in proportion to their investments (average rate of profit). This is what held this chaotic class together. However so soon as it is no longer a question of sharing profits but of avoiding losses during a recession, they cease to be a band of brothers as each seeks to offload their losses onto the shoulders of their competitors.

This essay has dealt with the pricing system we will introduce after the conquest of state power and the abolition of private ownership of the land and the means of production and distribution. Prices responding to labour times becomes the essential glue binding a society together through the equitable distribution of rising productivity. To this we add the benefit that each will receive back from society in proportion to their contribution, which is an equal right in the midst of an unequal working class, as it emerges from the womb of capitalism divided by unequal skills.

To these conditions it is necessary to add a third as described by Marx and inversely learnt from the wreckage of the USSR. The social product is the property of the producers. They decide collectively and democratically what portion will fall into the sphere of personal consumption (here regulated by the right to receive in proportion to contribution) and what will be set aside for new investment, health care, looking after those who cannot look after themselves, insurance against disasters, healing the planet and so on. This will take the form of a deduction.

This deduction may vary from worker to worker. While society may agree a minimum deduction, individual workers may offer more if they feel passionately about, for example, global warming. This however is incidental. What is essential is that the social product is under the control of the working class, and its disposition is under the control of the working class.

In a socialist society, these surpluses do not correspond to the economic surplus generated in a capitalist society, and here we think of rent, interest and profit. It is likely to be smaller, because it no longer provides for a class who lives off it and who make up for their small number through their extravagant life styles. The key is that these deductions must be strictly monitored - for a failure to do so may turn it back into a surplus, into being appropriated by a growing minority who would use it to undermine workers' democracy and thereby roll back the hand of history. This monitoring and accountability of the total deducted becomes one of the prime concerns of the workers' state.

In the Soviet Union there were no deductions, instead there were only additions. The importance of this is only now understood. To appropriate the surplus of society, the bureaucracy added taxes and profits. They added margins. Planned prices, when not made up or modified to serve some planning imperative, covered only the wage fund and a few bits and pieces (analogous to paying for necessary labour time). The surplus was contained in the margins that were added to these prices. Because the bureaucracy had control of the social product, it could regulate the exploitation of the working class by altering the size and scope of these margins or, what is the same thing, these additions. In this way they mimicked the capitalists who add their profit margin to the cost price.

Hence we learn from the experience of the Soviet Union the importance of controlling the surplus of society, for once it is controlled by the working class no exploiter can emerge. That means open books, knowing the size of the social product, agreeing to the deductions, and ensuring these deductions are used for the purposes described. To this necessity, the issues of worker management of individual plants is subordinated. It is meaningless for workers to control factories if they do not control the commanding heights of the economy.

Fourth and finally, we look at the worker in his or her twofold role. First as producer and secondly as consumer. Each worker works for himself or herself by working co-operatively on the basis of the shared ownership of the means of production. Working for oneself has to be understood in a two-fold sense. The producer gives of his or her labour and receives back an equivalent quantum of labour from society.

Workers decide collectively what is to be produced: the plan. This decision is the aggregation of all the individual consumer decisions made by the vast numbers of workers covering a swathe of specialities. The individual worker thereby cedes control over the disposition of his or her labour. They have to work under the conditions and directions set out by the plan.

This loss of the right to dispose of their labour, is balanced by the right to decide what they want back from society, namely the sum of their consumer choices. This is an absolute right which cannot be interfered with. If the worker has to work in a manner consistent with the plan then it follows their contribution to the plan, their individual consumer choices are final. What is lost on the one hand is gained by the other, what the producer gives, he or she receives back in another form.

It would be undemocratic to interfere or override this consumer choice and at the same time to expect the producer to work in accordance with the plan. Take motor cars for example. If workers who never had a car desire one, they cannot be prevented from having one. All that will be allowed, is for our scientists to develop cars which have the least impact on the planet. Interfering with each other's consumer choices will corrode a socialist economy even if some of these choices are stupid.

This again is the lesson from the USSR. When Stalin imposed the plan on society, it was the planners who were put in charge. It was they who were given the power to decide what would be produced, when and in what quantities. Its result was to further divorce workers from the labour process. Not so in a socialist society where individual consumers decide what they want. Here the planners only fulfil a technical role, they aggregate all these individual choices directing production to satisfy these wants and needs. They take their instruction from the producers as consumers.

We have here listed the four essential economic conditions that form the foundation of our economy, and which ensures its success. They are, firstly a responsive pricing system, secondly receiving back in proportion to contribution, thirdly control of the social product through the democratic agreement on deductions and finally the right of the consumer to decide. If even one is absent, a socialist economy will be grounded and if it is, workers' democracy will be redundant. The overarching condition for a vibrant socialist society is a dynamic economy, which is why this essay limits itself to these conditions. Their veracity is established by the experience of the USSR, in which each was negated by the bureaucracy.

Finally, this essay is not an intellectual flourish. Capitalism remains in intensive care on a drip feed of low interest rates. It grows bubbles but is unable to restore investment, the economic surpluses it generates lie languid taking the form of a giant hoard, which now is so large it suffocates speculation itself. Everywhere a state of torpor exists except in the looming struggle between the new and the old: China versus the USA. In this state of affairs we seek to rearm the international working class for the momentous events that lie ahead. We need to make history otherwise history could unmake the human race.

(Note 1. Like Marx, we seek to abolish the system of wage labour and with it wages. Here we are describing wages in form only - emptied of its capitalist content and the subjugation of the worker. It is a convenience so as to make smoother the reader's understanding of the concepts under analysis.)