WHY THE RATE OF PROFIT IS PRODUCTIVE IN A MARKET ECONOMY BUT UNPRODUCTIVE IN A SOCIALISED ECONOMY.

In 2006 Martin Thomas published an article in the Journal Historical Materialism titled: "Three traditions? Marxism and the USSR". The three traditions he described were the groups and or individuals who described the USSR as either State Capitalist, Bureaucratic Collectivism or Degenerated Workers State. This article is well researched and comprehensively referenced providing a guide to the protagonists throughout the 1930s and 1940s as they grappled with their analysis of the USSR and Stalinism. They were all wrong theoretically and practically. https://www.academia.edu/1555108/Three_traditions_on_the_USSR

Its all very well for the critics of Marx to falsify his conclusions by accusing him of being one sided. However, it is unacceptable for the followers of Marx to themselves resort to one sidedness in their analysis of capitalism and its trajectory and claim this is what Marx intended. It is true that Marx described the tendency towards concentration and centralisation of capital through the dispossession of the working class by capital (concentration) and through the dispossessing of one capital by another (centralisation) particularly during times of economic stress. But for Marx this was not a one-way street.

In an article on this subject written in 2015, I first addressed this issue. The quotes from Marx are taken from this article and they should be burnt into the minds of any serious Marxist scholar. In quotes d) and e) Marx talks of the repulsion of capitals together with the counter tendencies which not only slow down centralisation but can even reverse it. That is why it is absurd to describe such and such to be the highest phase or stage of capitalism or even its final stage. Many a leading theorist has fallen into this trap. https://theplanningmotivedotcom.files.wordpress.com/2015/05/expanded-article-on-state-capitalism.pdf

One concrete way of examining this centralisation and its' counter tendencies is to examine what is called the churn of companies within any stock index, that is the relegation of older companies and the promotion of newer entrants, some only two decades old. Nowhere is this better described than in the premier US market index, the *Dow Jones*. It was founded in 1928 to include the top 30 US corporations by value. One of the better commentaries of this churn is the one produced by the *Visual Capitalist* website, a must visit. "*In fact, in the 92 years of activity visualized for the DJIA, there were **93 changes** in its composition. This is not surprising, as the average duration of a company's tenure on American indices has been trending down for decades—that said, 63% of Dow changes occurred in the second half of the 92-year sample period. The current iteration of the DJIA includes some long-serving constituents, with the average length of companies in the index sitting at **20 years**. General Electric was the last standing member of the original group from 1928, but in 2018, they were replaced by Walgreens.*" https://www.visualcapitalist.com/every-company-in-and-out-of-the-dow-jones-industrial-average-since-1928/

Thus, there is not one of the original 30 still in the Index. That last original surviving member was booted out in 2018 - General Electric. This vindicates Marx's timeless and complex view describing the tireless renewal of capital. If we look at the top US corporations in order of market capitalisation, and then sort them by their date of incorporation, we find; Microsoft (1975), Apple (1976), Amazon (1994), Alphabet (1998), Tesla (2003) and Facebook (2012). Their average age is 28 years old in a mode of production which is itself at least ten times older.

Quotes from Marx.

a) Capital exists and can only exist as many capitals, and its self-determination therefore appears as their reciprocal interaction with one another" (Grundrisse p. 414 quoted from *State Capitalism in the International Socialist Tradition* by William Jeffries).

b) **"And if capital formation were to fall exclusively into the hands of a few existing big capitals, for whom the mass of profits outweighs the rate, the animating fire of production would be totally extinguished. It would die out."** (Page 368, Volume 3, *Das Kapital* Penguin edition)

c) "Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument." (Marx, Volume 3, *Das Kapital,* Quoted by Ranjit Sau. *On the Laws of Concentration and Centralisation of Capital*. *Social Scientist* Volume 8, number 3, October 1970 J Stor.)

d) "At the same time portions of the original capitals disengage themselves and function as new independent capitals … Accumulation and the concentration accompanying it are, therefore, not only scattered over many points, but the increase of each functioning capital is thwarted by the formation of new and the sub-division of old capitals. Accumulation, therefore, presents itself on the one hand as increasing concentration of the means of production … on the other, as repulsion of many capitals one from the other." (Page 586. Volume 1, *Das Kapital*, International Publishers.)

e) "This process (centralisation) would entail the rapid breakdown of capitalist production, if counter-acting tendencies were not constantly at work alongside this centripetal force, in the direction of centralisation." (Page 355. Volume 3, *Das Kapital* Penguin edition)

This article will concentrate on quote b) which is highlighted. Nowhere in Das Kapital is there found such a single sentence which is so pregnant with consequence, and yet so little understood, especially by those who categorise the USSR as state capitalist. Contained in that quote has rested the fate of hundreds of millions of workers, and even the revival of capitalism. Here Marx contrasts the mass of profits to the rate. The reason for this fundamental juxtaposition will become clearer as the article progresses.

Why the rate of profit is the motive and compass for investment.

Capitalism concretely is based on unequal exchange, that is prices deviate from values. This happens because of the need to redistribute surplus value between individual capitals within a sector and between sectors with higher or lower compositions amongst other things. We will begin our odyssey with a simple question. Why is it that a capitalist who introduces a new technique of production, which is invariably labour saving, is rewarded by extra profit? Such an innocuous question is confirmed by every day experience. We know without a shadow of a doubt this is the reason why capitalists invest.

And yet strictly speaking, from the point of view of the labour theory of value, this should not be happening. Let us assume an example where Company Z employs 500 workers working 40 hours a week. Each week 20,000 hours of labour is expended. For argument-sake let us assume this is 0.1% of the total expenditure of productive hours in the economy. Finally let us assume that 10,000 hours are paid, and 10,000 hours are unpaid.

Now Company Z invests in a new technology which allows that company to halve its workforce. The labour time commanded by the owners now declines to 10,000 hours or 0.05% of the total labour time of society. Worse, the unpaid component has halved as well, assuming the rate of exploitation does not change spontaneously. Effectively, the owners of Company Z would be poorer. This would be obvious if commodities exchanged at their value, which is not the case.

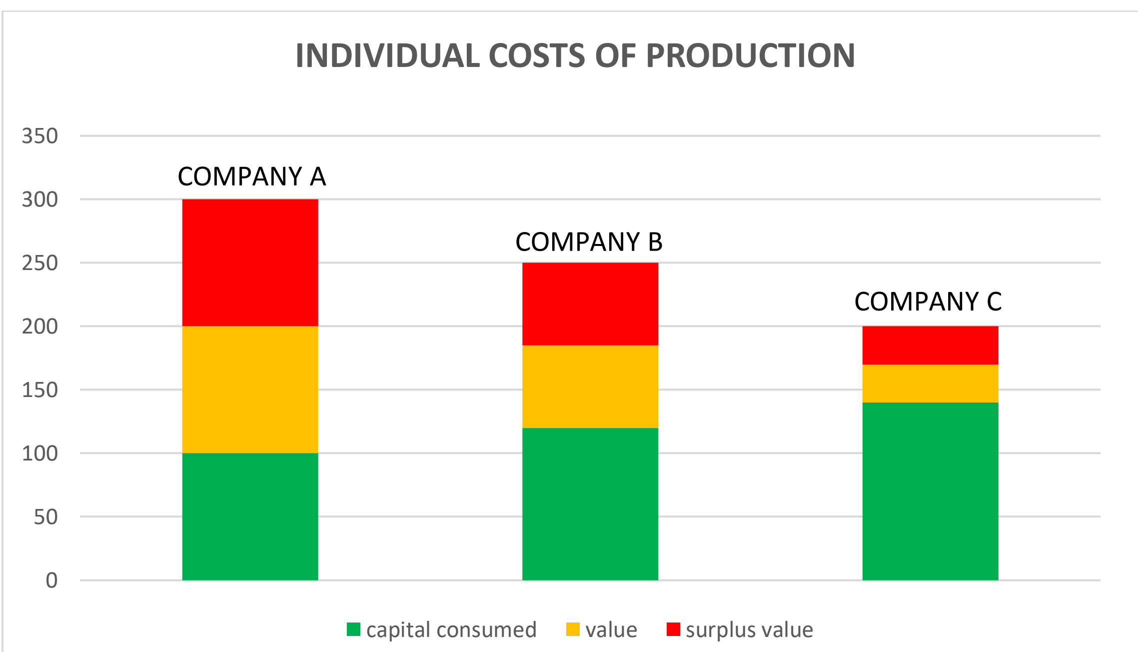
Again, it could be argued that because these workers are more productive, they can bear a higher rate of exploitation, thus expanding the unpaid portion of the day relative to the paid portion. The answer to that is yes and no. Yes theoretically, no, practically because of the delay; it takes time for lower prices to percolate through the market and into the basket of goods that determines workers' standards of living.

A clue that something else is happening is when we examine the impact on competitors in the sector. They are affected by the introduction of this new technology despite not having invested in it themselves. They experience this effect through changes in market prices once the weight of change is sufficient to bear down on the market price.

Thus, what is being considered here is this, is there a mechanism whereby the loss of the internal production of unpaid labour is more than compensated for by gains of unpaid labour from outside the firm, such that the investment is experienced not as a loss of profit but as a gain of profit. The answer is of course yes. This mechanism is the market price, and the agency is money acting as the universal equivalent.

To demonstrate what is happening, there are a series of graphs below. My original article contained tables, but graphs are visually more powerful. These graphs portray three firms in an industry producing a comparable product. Each one has an individual cost of production which differs from the others. Company A has the highest cost of production, B has the average cost of production and C the lowest. C is the most productive of the three. In all cases we are describing these companies in value terms. Their actual cost of production being c + v + s, where c is constant capital consumed (depreciation plus inputs), v is variable capital expended on wages and s is surplus value which concretely forms profits. We also assume similar outputs for each company so that we can continue to use simple averages.

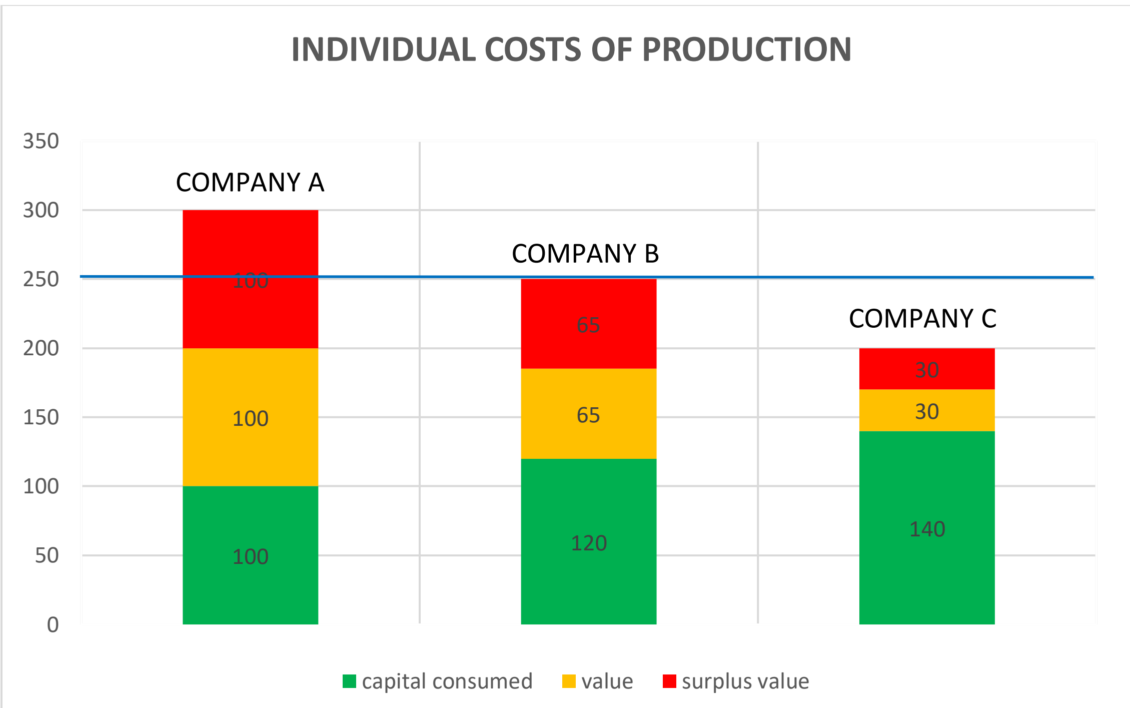
Graph 1.



Company A consumes the least constant capital and Company C the most because here workers work with more means of production and thus the throughput per worker is highest. However, because A is more labour intensive it produces more value, or 200 units of value of which 100 is unpaid. C on the other hand employs less than one third the number of workers so it produces only 30 of unpaid surplus value.

This goes unseen under the surface of capitalism. Now clearly three individual costs of production cannot give rise to three different market prices. Company A would find it difficult to sell at 300 when B is selling at 250. A would be wise to reduce its price to 250. (As Marx pointed out in Das Kapital, prices tend to gravitate to the average at this level of abstraction.) In turn C would be stupid not to raise their price to 250 from 200. Thus, competition would establish a market price, everything else excluded, of 250.

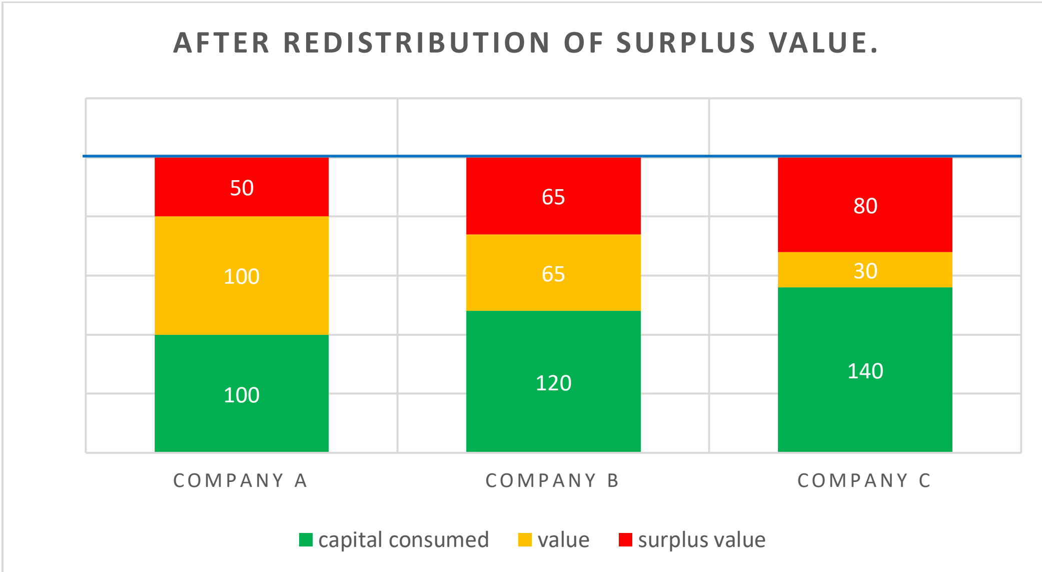
Graph 2.



The blue line in the graph represents the market price. We notice that A's cost structure pokes it above the line while Company C's is below the line. Effectively what is going to happen when each receive 250 is that A will lose 50 in money because it is forced to sell at 250 not 300, while C gains 50 because it is able to sell at 250 which is above its 200 cost. In other words, A loses 50 through monetary exchange, while C gains 50. A's 50 loss is therefore C's 50 gain. Like air moving from high pressure to low pressure, surplus value flows from high cost producers to low cost producers.

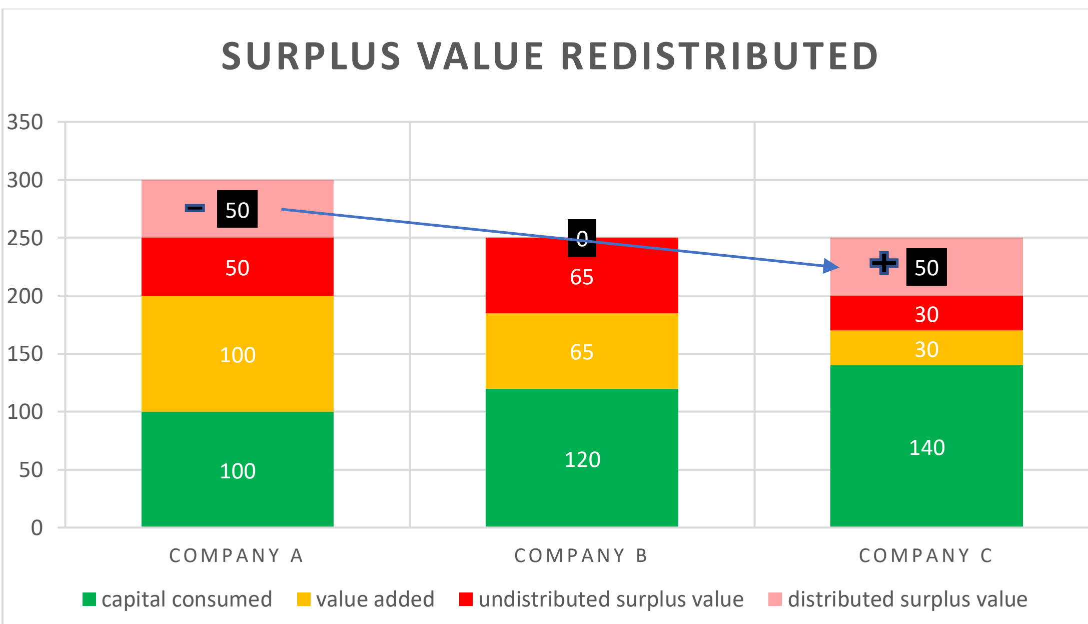
The effect of this redistribution of surplus value through monetary means is shown in the next graph below.

Graph 3.



A’s surplus value realised has shrunk and C’s has grown. B is left unscathed because here the market price coincides with its value or actual cost structure. The redistribution of surplus value amounting to 50 is better shown in Graph 4. A’s realised surplus value shrinks from 100 to 50 while C’s swells to 80.

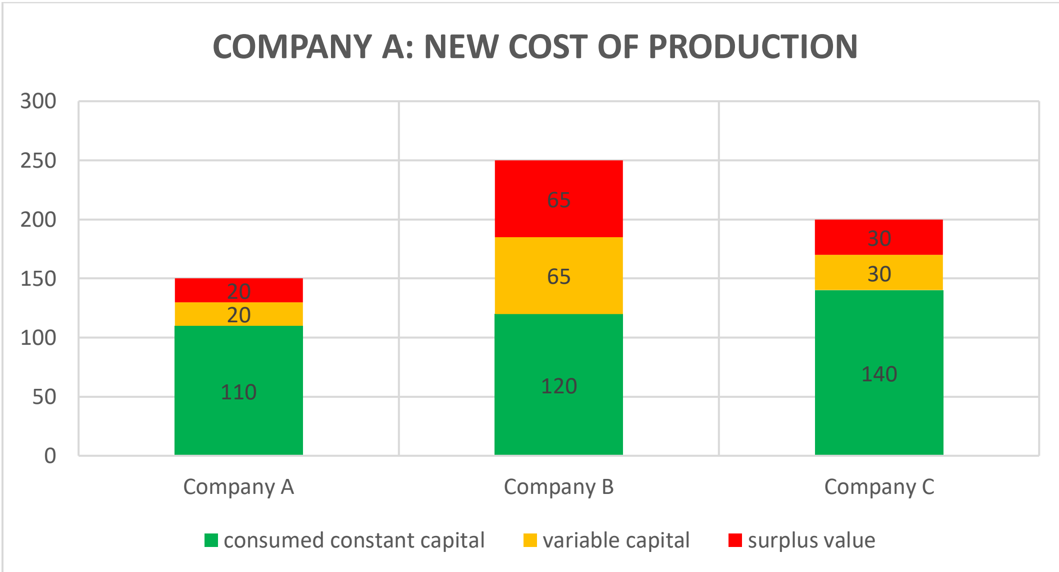
Graph 4.



Paradoxically, despite its workers producing the least amount of surplus value or unpaid labour, C realises the most surplus value in the sector. In fact, A is now the recipient of the least amount of realised surplus value. Truly, competition turns the world on its head, realised surplus value replaces actual surplus value.

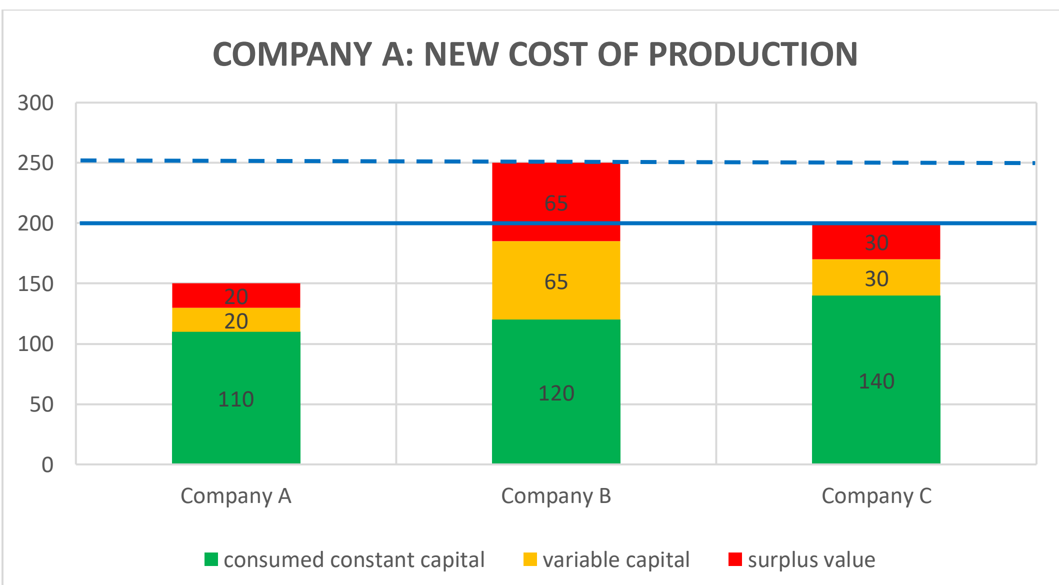
Of course, the pursuit of profit is the goal of any set of capitalists. Concerned with their loss of profit Company A decides to invest in a new technique of production. This investment does not affect any of their respective outputs only the costs of this output. Each firm continues to produce one third of the total output so that we are freed from using weighted average labour times. Graph 5 shows the new cost structure for Company A whose new technique is both input and labour saving.

Graph 5.



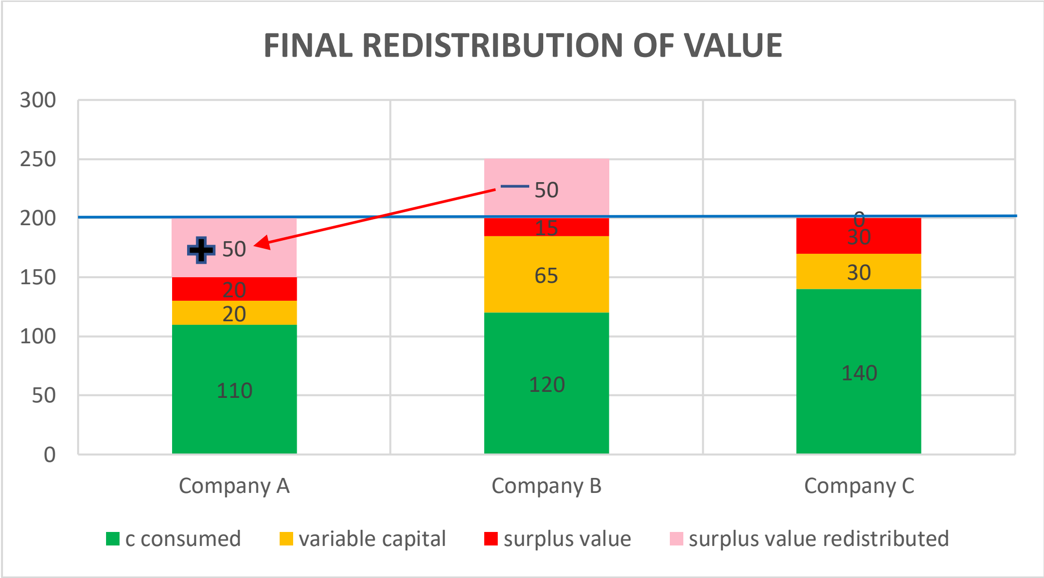
As a result of the fall in labour time in Company A, the average selling price also falls. (150 + 250 + 200 = 600 divided by 3 = 200) The old selling price of 250 has now fallen to 200. We note that as a result of this fall, Company B's cost structure is above the new selling price while Company A's is now below it.

Graph 6.



Company A now finds itself in the fortunate position of being able to sell its products at a price above its cost of production while B now has to sell its products at a price below its cost of production, despite having been average before.

Graph 7.



As a result of the redistribution of 50 surplus value from B to A, A's surplus value realised goes up from 20 to 70 while B's falls from 65 to 15. Now the order is reversed, with Company C becoming the average company so its surplus value holds at 30. In terms of profit margins Company A's margin previously was 20% when the selling price was 250 and is now 35% based on a selling price of 200. Additionally, the figures for B and C respectively are 26% falling to 7.5% and 40% falling to 15%. Cumulatively there has been a fall in profit margin from an average of 26% to 19% because the total mass of surplus value produced and realised has fallen from 195 to 115 due to a reduction in 80 by Company A. Bear these figures in mind as we head towards an investigation of the USSR. We are not concerned with the impact of these falling profit margins on the rate of profit.

On a final note, it is only now, at the point where market prices fall from 250 to 200 that the issue of the pricing of labour power and thus changes to the relative rate of exploitation arise. Clearly if the sector we have examined produces articles to be consumed by workers, the fall in prices will allow a real fall in wages which will in turn alter the relative balance between paid and unpaid labour. (In all of the above we have assumed that demand does not affect prices, and that because this sector is of average composition market prices equals aggregate value because the movement of capital does not disturb this relationship.)

This thing called State Capitalism.

Rudolf Hilferding was the only Marxist theoretician of note who objected to the characterisation of the USSR as State Capitalist. Trotsky continued to uphold the theory of it being a degenerated workers' state but with more qualifications as time moved on. Here is the link to Hilferding's article written less than a year before his death. https://www.marxists.org/archive/hilferding/1940/statecapitalism.htm

However, as the article shows, he drew the right conclusion but for the wrong reason. He attributes this to the absence of a pricing mechanism viz: "*It is no longer price but rather a state planning commission that now determines what is produced and how. Formally, prices and wages still exist, but their function is no longer the same; they no longer determine the process of production which is now controlled by a central power that fixes prices and wages.*" This statement is wrong at many levels. In a capitalist society, it is not price that drives capitalist production directly, but only indirectly through the effect prices have on profitability. As long as a price yields an above average rate of profit, investment will be attracted and production will expand, but if a price yields a below average rate of profit investment is repulsed and production will contract. Thus, in the end it is the question of profit and not price that is decisive. For example, prices can rise in an industry with low profitability but if that price rise is insufficient to restore the average rate of profit, production will continue to decline until it does so.

The real answer why capitalism can only exist as many capitals and not as a single capital [Quote (a) above] is given by Marx: **"And if capital formation were to fall exclusively into the hands of a few existing big capitals, for whom the mass of profits outweighs the rate, the animating fire of production would be totally extinguished. It would die out."** (Page 368, Volume 3, *Das Kapital* Penguin edition) Mass versus rate, here lies the essence of the problem. In the Graphs above, we have seen that in the absence of unequal exchange, that is to say, more or less money received in exchange for value, the profit motive cannot work. When A introduced its new form of production two things happened. Firstly, the mass of surplus value produced by its workers fell. However, this was compensated for by the transfer of value from B to it. A which has realised only 20 in surplus value before its new investment now realises 70 despite the fact that its own workers who previously produced 100 surplus value, now only produce 20.

The alert reader will now be in a position to draw conclusions. If we swop the term surplus value for profit, we can say the mass of profits produced and realised are two different things. Through competition individual capitalists are able not only to appropriate the unpaid labour of their workers but some of the unpaid labour of their less productive competitors. But this is the startling point, this can only happen in the realm of many capitals, for without many capitals there cannot be exchange, and without exchange there cannot be unequal exchange. Thus, a full understanding of how capitalism operates concretely only appears in Volume 3 of Das Kapital when Marx reintroduces the differences that actually exist between individual capitals ensuring that exchange previously taken as equal now becomes unequal. We have entered the realm where produced and realised surplus value are no longer equal.

The fact of the matter is this, were it not for unequal exchange, any labour-saving investment would be met with an immediate fall in the mass of profits. Let me repeat this because it seems to have escaped the Marxist tradition since at least the 1930s; without unequal exchange any labour-saving investment would be met by an immediate fall in the mass of profits. This is what lies behind Marx's immortal words; *that when the mass of profits outweighs the rate, the animating fire of production would be totally extinguished*. Capitalists only invest as and when their investment increases their rate of profit which requires competition compensating them for the loss of unpaid labour produced by their own workers.

In full. Unequal exchange rewards an investment with extra profits raising the rate. In turn competitors have to invest or fail. As the weight of new investment grows it acts on market prices driving them down. Falling market prices in turn acts on the price of labour power causing it to fall. In turn, the falling price of labour power reduces the amount of variable capital expended on each worker which in turn raises the relative rate of surplus value, thus increasing the mass of surplus value or profits, despite the decline in the number of workers. Here we have the charmed and golden circle of capitalist production which makes it dynamic through enabling it to economise on labour time.

It is important to note in concluding this section that this issue with profits does not depend on a single capital spanning the entire economy. The same effect will occur if every industry or sector has a single capital. The transference of value in this specific case occurs within and not between industries. Thus, if a single capital producing a given item reduces its labour time, it will be met with both a reduction in profits and wages. Fewer workers to receive wages, fewer workers to produce profits everything else being equal. So what, a devil's advocate will say, if prices remain unaltered while wages fall, profits won't? Except, they will. The law of demand and supply will apply. Demand is formed from the revenue streams emanating from production. If profits and wages fall then so will the revenue stoking demand. There will be a commensurate fall in demand and with it, prices will fall, and if there is a generalised reduction in labour times then there will be a generalised fall in revenue and with it, selling prices. Price is like an obedient dog following in the footsteps of its master or mistress, labour time.

The USSR.

As Martin Thomas has pointed out the USSR was called many things, including a degenerated workers' state, a bureaucratic collectivist state and state capitalist. It was in fact a socialised economy run by a politicised bureaucracy who exploited the working class by means of an oppressive state. Why the designation a politicised bureaucracy. Well, that term denotes that it was the communist party who recruited, organised, promoted, rewarded and disciplined this bureaucracy. The party was the glue that held the bureaucracy together. As long as the centralised leadership of the party endured, it could act as the head of the bureaucracy. If the bureaucracy was merely a bureaucracy and not a politicised bureaucracy, it would have fallen apart much earlier than the 1980s.

What the bureaucracy was not, was a class. As Marx and Engels pointed out repeatedly, the capitalist class draws its social power from its private ownership of the means of production, distribution, information and the land. It is this capital that grants them access to the surplus value produced by the working class. Their social power and status therefore does not depend directly on state power which merely reinforces their social power. They are thus able to allow multi-party democracy provided no elected party threatens their private property. When and if they do, the capitalists simply close down parliament. Of course, once this happens, they are in no position to point their finger at so called communist countries for having a single party, because now they would have banned all parties. Ah, the sham of parliamentary democracy.

The same applies to China today with a variation. The Chinese Communist Party is no longer simply the domain of bureaucrats but is populated with legions of capitalists some of whom are billionaires. Given the growing social power of these capitalists, why retain this cumbersome bureaucracy and despised Communist Party. There are over 800 million hostile reasons to do so because there are 800 million workers in China. The Chinese Communist Party is steeled in class warfare. They are aware that moving towards multi-party democracy could set off the working class, raise its aspirations, and end up with workers setting out their own independent demands. This chain of events has happened over and over again in history. The only time multi-party democracy could come into existence in China, is if it were seen to be the only way to delay or divert a socialist revolution. In that event the Chinese Capitalist Class would not hesitate to throw the carcass of the Chinese Communist Party into the mob as a sop to curry favour and defuse the class struggle.

Moving back to the economy of the USSR. When I examined the many theorists who have tackled the task of unravelling the existent mode of production there, I was reminded of a supermarket shelf with a sufficient variety of products to satisfy the most pedantic customer. There is a can labelled "forced accumulation", another labelled "wages", next to it "state employer", further along a can labelled "barter", one proclaiming the "Rouble" to be money, even an exotic one called the "arms race". So much to choose from, mesmerising and blinding, allowing for multiple interpretations.

Instead what was required was to extract the substance governing the mode of production present in the USSR. Once again it is necessary to defer to Marx. Marx's central method in analysing modes of production, was to investigate how, specifically, the labour of the individual becomes part of the labour of society and how that labour is appropriated. In the case of an economy based on generalised commodity production, a market economy, the labour of the individual worker only becomes part of the labour of society indirectly, by having to first be exchanged. And if that labour is not exchanged it never becomes part of the labour of society. In that case capitalists lose their capital instead of gaining a profit. Throughout Das Kapital Marx describes capitalism as indirectly socialised. Thus what Marx is investigating throughout his 3 Volumes is the mode in which the labour of the individual workers becomes part of the labour of society and how this labour is appropriated.

This is the only way to proceed. There is no other way. This method needs to be applied to the USSR as well. After the First Five Year Plan in 1928 the labour of the individual no longer became part of the labour of society indirectly, but directly. Individual labour or its product no longer needed to be exchanged. Outputs became inputs. Production was for use. The economy was effectively socialised. However, despite being socialized, the labour of the individual was appropriated by a state which served the interest of a politicised bureaucracy. Only when we understand this socialisation can we proceed to explain the structures and behaviour of the economy, making explicable what was hitherto inexplicable.

The USSR was not a capitalist society because it was socialised, nor a socialist society because the labour of workers was forcibly expropriated. Workers were exploited. Indeed, in the end, the contradiction between the socialisation of production and exploitation would end this economy. Such an economy can have no driving economic incentive unless one includes terror and oppression as economic drivers. More concretely in such an economy prices become fictitious and profits unproductive.

Either prices reward profits, as in a capitalist economy, or they reward labour as in a socialist society. When they do neither they become destructive. This is what happened in the USSR. Prices became an administrative device to regulate exploitation. To disguise the parasitism of the bureaucracy prices were divorced from the expenditure of labour. Prices were designed to under pay labour so as to create the space for the insertion of margins - firstly tax margins and later profit margins as well.

Thus, the aggregate price of products in the USSR contained two elements, one to balance the total wages fund and the other to balance the state budget which inter alia provided the bureaucracy with its privileges. Prices were a means to marry the financial side to the physical side of the plan. The core of command planning in the USSR was material balances. Technically GOSPLAN simultaneously matched physical inputs with outputs. Once this was done the wages fund and the state budget was apportioned over this physical output, sometimes unevenly depending on planning priorities. The better word is overlayed. (Before bourgeois critics throw insults at material planning, they should look over their shoulders at just in time supply chains which, Err, simultaneously balances inputs with outputs in real time.)

Objective prices never played a part in planning in the USSR except for a short-lived experiment by Stalin in the late forties which ended in disaster and the lives of its proponents. But in the absence of actual prices based on accurate accounting, waste and uneconomic production becomes endemic. In the end this corroded the USSR leading to its collapse.

Of course, the slowing economy after the War forced the party to adopt methods of capitalist management, particularly trying to recreate the profit motive as a way of improving efficiencies and reducing waste. It had to fail. The late Chris Harman wrote extensively about the falling rate of profit bringing down the USSR. He did so because he treated the USSR as being capitalist albeit state capitalist.

He like the rest of the SWP leadership were facing the wrong way. It was not the falling rate of profit that helped end the USSR, it was the presence and use of profit in the first place. Unlike capitalism, the rate of profit in a socialised economy has no place, it is therefore destructive rather than dynamic from the outset and there are no exceptions. Harman's views are lamentable, they show once again how threadbare theory has been. Marx would be rolling around in his grave were he to know how little his followers have contributed to his works and how much they have stripped away.

The reasons have been emerging as the article has progressed. We will concentrate on the 1967 price reforms which were designed to make cost accounting more prominent at a local level in order to enlarge profit as an incentive. (They followed the pivotal 1965 Kosygin reforms which sought to restructure the economy.) This was a move away from aggregated expenditures of labour to expenditures at the level of the Enterprise. This was to have unintended consequences for the bureaucracy but would have been anticipated by Marx. Here is an extract from the *Great Russian Encyclopaedia (1979) "The reform of wholesale prices was an important component of the economic reform. Effective profit and loss accounting demanded that prices more fully reflect the socially necessary labor expenditures on production, that unprofitable operations in various branches of the national economy be eliminated, and that prices be more effectively used to improve the quality of products and modify the product mid. The reform of wholesale price (1967 made it possible to plan prices in terms of the capital-output ratio of production."* https://encyclopedia2.thefreedictionary.com/Economic+Reform+in+the+USSR

There is much to read in this synopsis as well as a lot of wishful thinking. The Encyclopaedia was quite wrong to suggest that the reforms would give Enterprises free reign to set prices. This was not the abandonment of command planning but its modification. Two dominant factors remained. Planners continued to regulate prices and profits were triggered only after Enterprises achieved their set physical targets.

In 1967 there was a one-off rise in generalised prices to accommodate the new profit margin. Of course workers paid for this because there was not a commensurate one-off rise in the wage fund which would of course have wiped out the new margin. But after this the planners tended to cap prices. The reason, to bear down on Enterprises to reduce their "cost-prices" by reducing inputs and employment. (The alternative, of allowing Enterprises to set prices would have resulted in immediate hyper-inflation.) One of the side-effects of these new measures was to give the planners a deeper insight into the finances of Enterprises. This had been previously obscured by the unending guerrilla warfare between plant managers and planners over the issue of setting physical targets.

Enterprise managers to their regret found that the planners were beginning to adjust prices based on this additional knowledge of their costs. As these prices tended to be adjusted downwards, so Enterprises began to lose income. The more efficient they became, the harder it became to increase their profit.

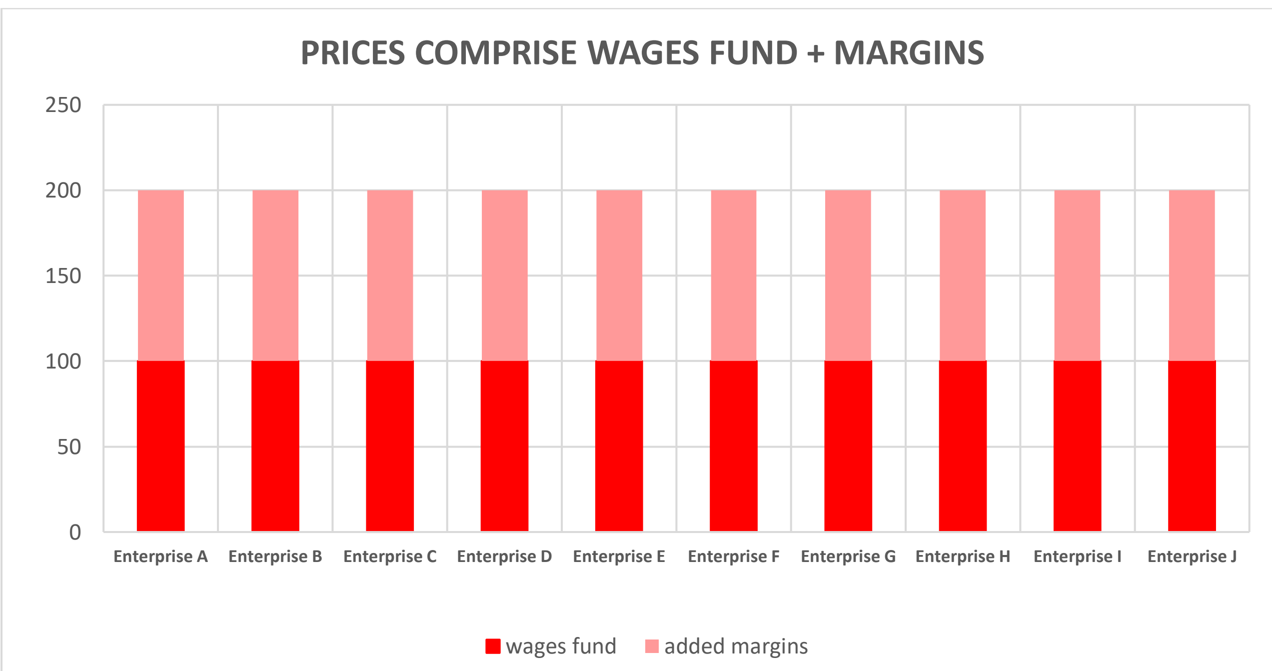
This phenomenon can be described once again by means of graphs. The reader should note this is looking at the matter in the USSR in the abstract, but nonetheless, beneath the surface this is what began to happen following the 1965 and 67 reforms when costs and profits were prioritised.

The socialised economy in the USSR post-67 can be presented as a graph with 10 equally sized enterprises. For ease of explanation let us assume that each enterprise represents 10% of the economy. Historically the prices at which their products circulate has been set, not by the wages fund, but by the margins needed to fund the state budget. If this is set at 50% of the economy, then it follows that the margin needed to be added to the wages fund must amount to 100%. This is then apportioned over the physical output, generally emanating from what Marx called Department 2, or the production of articles of consumption, so that the price of each product contributed a share to the fund and the budget.

If for example the state budget required a higher funding, then the composite margin could be increased to 110% resulting in a general rise in prices of 10%. This is what happened with the price revision in 1967 when prices were raised to accommodate an expanded profit margin. (It is not important to distinguish within the margin whether the margin is a tax or profit margin. The only difference between the two is that whereas the tax margin was solely paid into the state budget, the profit margin was shared in varying proportions between the state and enterprise managers.)

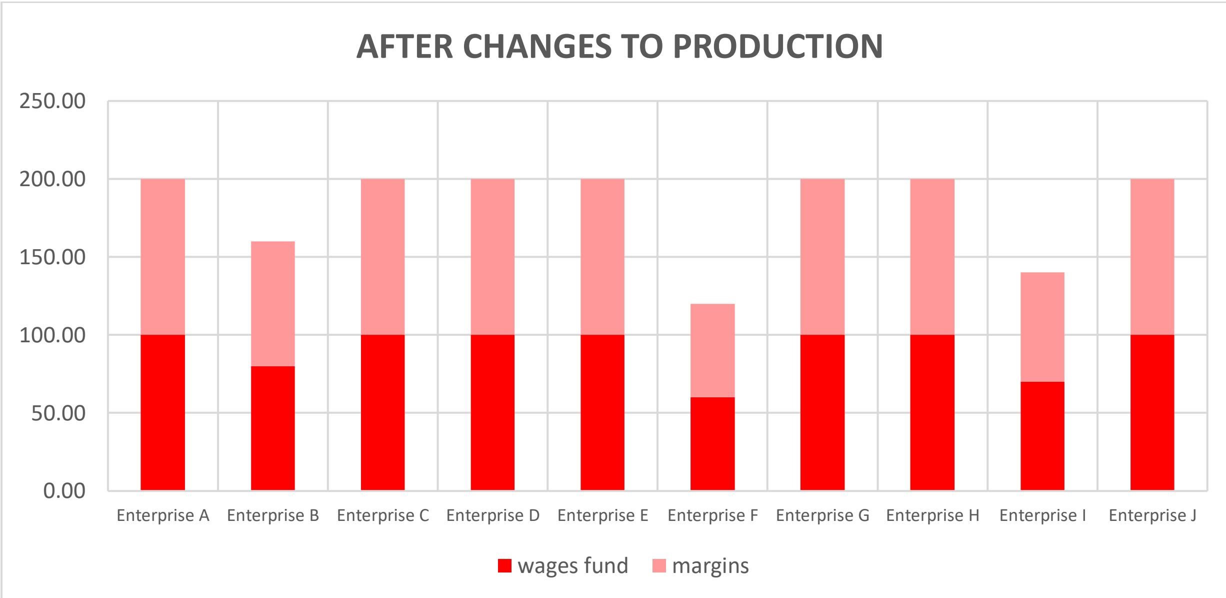
The main take-away here is the recognition that the presence of margins makes it impossible to measure workers' contribution to production, because by distorting prices, they come between workers and their product.

Graph 8.



For ease of explanation all enterprises have been made uniform. Now let us assume that post-67, despite GOSPLAN setting output targets, three enterprises take the steps which they have been encouraged to do, by rationalising their production which reduces their expenditure of labour time. They are Enterprises B, F and I.

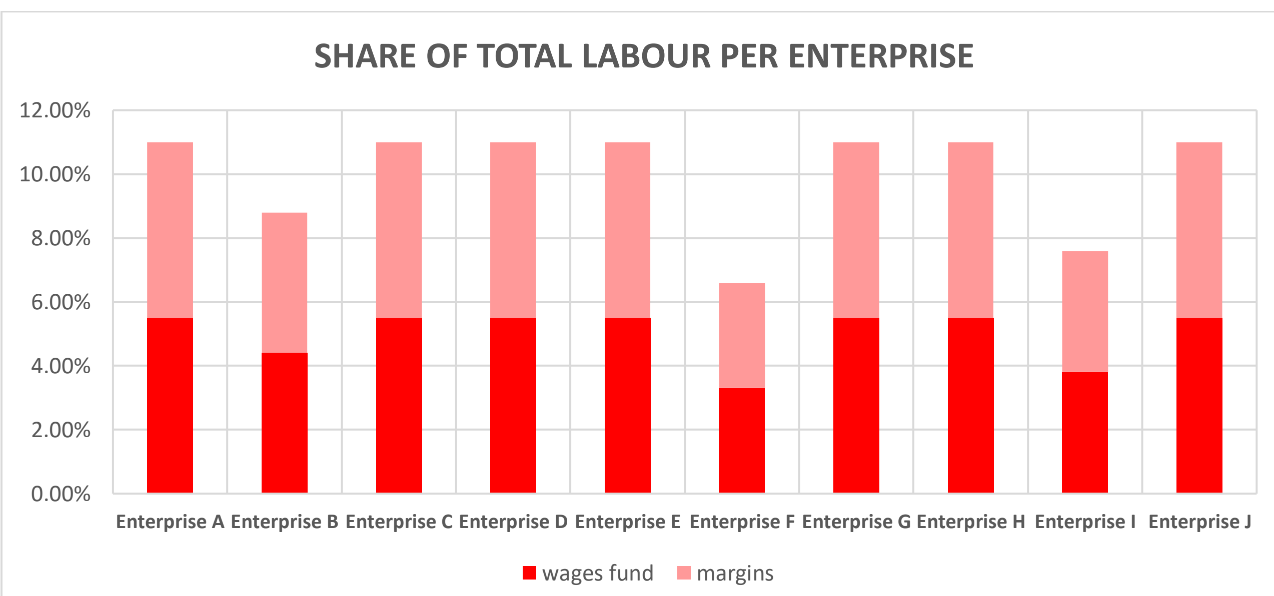
Graph 9.



As a result of these changes, the economy wide expenditure of labour measured previously at 2000, has now fallen to 1820. In a socialist society, this fall of 180 or 9% would be rewarded by a general fall in prices of 9% shared by all. But this was of no concern to Enterprise managers who were fixed focused on their margins.

But labour time is pesky, it hates to be ignored. And to understand why, examine the graph below. It shows the share of the total expenditure of labour per Enterprise. Those who economised on labour time saw their aliquot share of the total fall from 10% to 8.8% (B), 6.6% (F) and 7.6% (I). On the other hand all the other enterprises saw their aliquot share rise from 10% to 11%. They suffered no loss.

Graph 10.



More importantly, the 100% margin in the three Enterprises now yielded a lower margin. For example, a margin of 100% on 100 yields 100 but only 80 when based on a “cost-price” of 80. As the enterprises reduced their “cost-prices”, they also found it yielded less income for themselves and the state. Introducing the “concept of the cost of goods sold” started to backfire.

After a period of initial success planners found to their horror that Enterprises were no longer reducing their costs but increasing them to increase their income. This may have seemed perverse, but actually it was predictable. By raising the cost base over which their margins were calculated, enterprise bosses were inadvertently increasing their share of the labour time of society, thereby benefitting their own pockets.

This is why the planners abandoned these last chance-saloon measures. It was not because of the events in Czechoslovakia or push back from the planners, as Western Observers insinuated. Nor because these measures had not gone far enough. These measures had proved themselves counter-productive. Actually it was pitiful to watch the efforts mounted by governments in the West to analyse what was going on in the Soviet Union. Really a question of the blind leading the blind, because despite being blinded by their own vulgar understanding of capitalism, these analysists used the same misshapen tools to try and dissect, what was a distinct mode of production. The best expose of the $ Billions wasted by the CIA and others is found in William Jeffries book “*Measuring National Income in the Centrally Planned Economies*.

Conclusion.

Economists in the USSR understood Marx, but parrot fashion. They rattled off quotes from Kapital. A distinct favourite was the view that the law of value continued to operate. This was opportune because this foggy law hides all manner of failures. If pricing does not work, blame it on the unpredictable operation of the law of value. Nonsense, after the first five year plan the law of value no longer existed, and if it operated at all, it did so on the far margins. Similarly their nod towards the expenditure of labour was never serious. They may have ignored labour times, but labour times did not ignore them in the end.

The same parroting of Marx occurred in the West. This was particularly true for the “State Capitalists”. The widely held view that the direction of capitalism pointed towards state capitalism, was a fable. We have shown why state capitalism is a dud. Of course, we could say, but only tongue in cheek and with a broad wink, that the USSR proved Marx right because its failure was proof positive that state capitalism could not work. But that would be to lose the most important lesson. There is no place for an exploitative society after capitalism. Such an economy would eventually fail.

The Soviet Union was a distinct mode of production. The features thrown up by this economy were not aberrant but flowed from its own laws. The profit motive in a socialised economy, where money is not free to transfer labour time, will lead to investments maximising labour time rather than minimising it, as happens in a capitalist economy. That is why investments in the USSR tended to replicate existing production rather than innovate new production. That way Enterprises maximised labour time rather than minimised it. That is why there was no systemic economising on labour time, the source of all progress.

The only question to be answered is this; why has it taken so long to explain this phenomenon? After all, It is easier to understand the consequence of profitability in a socialised economy than in a capitalist economy, because in the former the transfer of surplus value does not complicate the outcome. There, labour-saving investment is met with a fall in profit, instead of a rise in profit, as in a market economy.

Brian Green 19th March 2019