FOREWORD 2017.

Since this pamphlet was first written in 1999 much has changed. Globalisation has matured, China has become the pre-eminent industrial power and the reverberations of the 2008 financial crash centred on the USA are still being felt. Beginning in 1973 in the USA, Japan in the early 1990s and Europe since the financial crash, the standard of living of the working classes in these countries has either stagnated or declined. Only in China and a few Asian countries has the standard of living for workers improved.

No society can maintain its stability or legitimacy if it cannot elevate its citizens' economic well-being. If as now is the case, where succeeding generations are threatened with falling standards of living instead of rising standards, then it is questionable whether capitalism can survive. But this failure to reproduce improvements in workers' standard of living is but one of four simultaneous crises facing capitalism. In addition, there is global warming, the advent of artificial intelligence heralding mass unemployment and finally the growing economic and military competition between the declining economic superpower, the USA, and the rising superpower, China.

These four crises facing capitalism are interconnected; each compounding the other, presenting capitalism with a challenge greater than the challenges of 1917, 1929 and 1939. Capitalism has survived many crises before by defeating its workers and making them pay for the successful resolution of each crisis. However, the current crisis is different, for in the age of nuclear weapons, a defeat for workers imperils the human-race itself.

This is the international and historical context within which this pamphlet is written. In the three years since the second edition, I have conducted a substantial amount of research and gained new theoretical insights into the workings of both capitalism and the USSR which are now incorporated in this new edition.

FOREWORD 2021. (3rd Edition)

The 2020s is expected to be the most turbulent decade in the history of capitalism. It began with a pandemic which paralysed the world costing uncounted millions of lives and trillions in economic losses. The virus was not so much invited into society as it was empowered by the reckless ineptitude and greed of the capitalist class and their governments. It is but a foretaste of what is to come as the USA gears up for war, globalism fractures, machine learning destroys jobs, and the planet keeps warming up. This re-write includes a number of graphs to simplify complex concepts.

ORIGINAL FOREWORD - 1999

A catastrophe is facing humanity: unfettered capitalism. The very planet is threatened, from the ozone layer, through the polluted air to the poisoned food chain, its trademark is everywhere found.

A calamity has befallen humanity. In the space of one lifetime, the remnants of the first workers' states have been trampled underfoot. With the collapse of the European degenerated workers' states, 1989 will forever be remembered as the end of the greatest war in history and the international working class's most abject defeat.

Yet there were no bombs, no radioactive clouds, no destruction except that of the spirit. Instead of shrapnel, there was the daily grind; instead of blast, demoralisation; instead of fire, frustration. These were societies that could not function, that could not develop production, that ignored their future, that decayed and fell back to the condition they had fought so hard to escape from.

Everywhere bureaucracy clogged the arteries, starved the organs and aged the body. A premature death ensued in the face of a capitalism made dynamic by the offensive of Reagan and Thatcher against the working class. Defeat in the west, destruction in the east. Cold war warriors triumphant.

The fallout of ideological confusion is everywhere. Socialism had failed. Humanity had no answer to the market. In despair the idealists and scribblers could only mutter of their hopes for a "market made fit for the whole of society". Pity them, for the real power in society, the capitalists, had the alternative project of making society fit for the market. All barriers to the market had to be swept away. The crack of competition rose ever louder. Atomisation, insecurity and fear infused every pore and every heart.

We have witnessed a terrible tragedy, so extreme that, in what was the Soviet Union, the very length of its citizens' lives has been shortened. Instead of the buildings, it is the people themselves who have been pulverised.

It is not the end. Capitalism's life is determined not only by the defeat of its external enemies, but the conquest of its own internal laws. These laws of motion, rotating around the profit motive, push it forward then pull it back. It is this pulse – stronger, stronger, weaker, stronger, weaker, weaker – that marks the passing of time for this system.

Who would have thought that less than 10 years after the fall of the Berlin Wall, the most dynamic part of the world economy – the Pacific Rim – would be struck by recession and Europe by stagnation, leaving only the home of 20th century reaction, the United States, keeping the world economy's head above water?

The future of capitalism lies not in its own hands but in those of its workers. Its survival depends on its ability to make workers pay for its failures and excesses. To achieve this, workers must be made to believe they have no future apart from their capitalist bosses; wage slaves held back by chains, not of the body but of the mind, enfeebled by their lack of independent consciousness.

This we seek to change. Like Marx before us, pondering the defeat of the European Revolution in 1852, we too have to take stock. Marx realised that if the workers were to overthrow capitalism, they needed to understand why it had to be overthrown. Without this knowledge, they could not stand up to the arguments of the capitalists. They would be defeated intellectually, and therefore forced into physical submission over and over again.

No new ruling class can tower above, nor emerge from, the old society until it has first conquered it intellectually. Today that means, first and foremost, understanding what went wrong economically in the Soviet Union. The two burning questions that need answering are: if this was socialism, why did it fail? And if it was not socialism, then what was it?

This is the millennium challenge. It is not some computer bug, some programming shortcut that threatens the future of mankind. It is the intellectual disarming of workers by the events in the Soviet Union and Eastern Europe that is the real danger. Solve it and workers can begin to retrace steps long since passed. Solve it and the stranglehold of the capitalists will slip. Organised and independent, the working class can, and will, free itself.

A NOTE ON METHODOLOGY.

Our readers may ask why we analyse capitalism here in such detail, as a prelude to examining the Soviet Union. The answer is simple. Without understanding how the profit motive works **concretely** within the capitalist mode of production – that it is rewarded by unequal exchange – no sense can be made of what was happening in the Soviet Union. Profitability under capitalism allocates investment and drives efficiency. It therefore puts the economy into the capitalist system by systematically economising on labour time.

As we will show, no such mechanism could be found in the Soviet Union. The adoption of the profit motive itself turned out to be counter-productive and helped destroy the economy. Up until now, the reason for this has not been found. The result was an economy without financial discipline where productivity stagnated and waste abounded.

Two opposed conclusions can be drawn from this. Firstly, the capitalist interpretation: that only the market drives efficiency. Secondly the proletarian interpretation: that workers must not only abolish private property, but all relations of exploitation, if the potential lodged in the collectivisation of property is to be realised. In the end, exploitation in the USSR corroded the new property relations to the point that they simply collapsed. That is the overarching lesson to be learnt from the tragedy that befell the USSR.

Finally I would like to comment on the structure of Marx's ’Das Kapital‘. Many critics have counter-posed Volume 1 to Volume 3 to find contradictions between them and thereby dismiss Marx’s monumental investigation into, and critique of, capitalism. Volume 1 looks at capitalism in the abstract while Volume 3 looks at it concretely, albeit fragmentally. It is therefore methodologically (scientifically) incorrect, as we shall demonstrate, to counter-pose the abstract to the concrete and therefore Volume I to Volume III.

Today many fields of science embody abstraction, to which we may add without being criticised for so doing e.g. biology or weather forecasting, which utilise computer modelling to capture the essence of specific phenomena. This always involves a degree of abstraction or simplification (loss of detail) depending on the amount of computing power available. In the past the degree of abstraction had to be greater; today less so, as computers have grown more powerful. The result is a more accurate approximation of reality yielding better predictions. For example, weather forecasting has not only become more accurate and localised, it looks further into the future.

Marx understood and employed the method of abstraction (simplification) nearly two centuries ago. He recognised that capitalism was a complex, living and evolving system that could not be frozen and analysed in a laboratory. He had to adopt the method of abstraction. To understand the complexity of capitalism, he had to first simplify it. There is no universal Satnav to guide this journey of simplification. Each subject throws up its own problems requiring a specific set of theories. The only way to proceed is to first master the subject matter, and that requires systematic research as well as a familiarity with the pre-existing body of theory. It took Marx many, many years to arrive at the correct level of abstraction allowing him to begin describing the inner and obscured workings of capitalism.

The process of abstraction is the process of removing the more specific, superficial, temporary and complicating aspects of any phenomena. This is done to expose the most generalised or basic aspects of the phenomena enabling them to be studied in their pure, undisturbed or uncluttered form. Only after they have been fully described and understood, is it possible to reintroduce the more specific forms to show how they connect to and modify the pure forms. In this way complexity is reintroduced through the process of systematically adding back that which has been removed. This is the process of reassembling the complex whole which takes place only in Volume III.

An analogy will explain this. Let us take the human face. There are over seven billion humans, and we all share a face. Incredibly each face is recognisable by being subtly different – that is by a variation to its specific features. If we were to describe a human face, we would not start by comparing the differences between faces, say the subtle variation between noses, eyes, skin/hair colour and texture etc., none of which makes us less human.

Instead we would begin with all the features that we share in common, all of which have to be present to constitute the human face. Therefore, to distinguish human faces from other mammalian faces, we would need to look at the unique hair, forehead, eyebrow, eyelashes, eyes, nose, ears, cheeks, mouth, lips, philtrum, temple, teeth, skin, and chin that constitute the human face. (Wikipedia). We all have human eyes, human foreheads and so on. These unique eyes, foreheads etc. distinguish us from other animal faces and their unique eyes, foreheads, noses and so on.

If we were to over-generalise by ignoring what makes a human mouth or human forehead unique and conclude that any mouth or forehead will do, we could not distinguish the human face. We would have submerged the human face into all the other animal faces which have mouths and foreheads too. Instead of being able to distinguish the structure of the human face from an animal face, we would only be able to distinguish animal faces from non-animal faces which do not have noses or foreheads etc. We would have overgeneralised or what is the same thing, oversimplified. Our abstraction would have gone too far, and we would have ended up removing too much voiding the goal we set ourselves – identifying the structure of the human face.

To repeat, the process of abstraction identifies all that is <u>common</u> to the human face while being <u>unique</u> to it. These are the two cross hairs of abstraction. Once we have identified all these generalised features, only then can we reintroduce all the variations to these features which shape the individual face, and which allow us to identify a specific person. Accordingly, from the abstract face we move to the concrete face or individual face. (Note 1.) If we did it the other way round all we would end up with is millions of different noses or eyebrows, but all disassociated or disconnected from any recognisable human face. In other words, garbage.

Interestingly this is the methodology that has allowed the security police to develop face recognition software, first by teaching computers to distinguish human faces from their surrounding background, then to become more precise in order to identify, match and follow individual faces. This was a complex task. To our eyes a picture is concrete, we see the faces, but the first computers saw only a generalised mass of pixels. Computers had to be programmed to connect and assemble these pixels into a face by means of the position of pixels, the density of pixels, the spacing between pixels and their difference in hue. The algorithms were able to assemble faces from out of the background noise, by means of connecting pixels to each other in the pattern or structure of a face informed by both its common and unique structures. Today the technology is so advanced that even smartphones can detect faces.

So too with 'Das Kapital'. Marx had to first investigate what was common to all capitals. Variations between capitals were dismissed. Everything was made average. Workers had average productivity and pay, average working days and intensity of work; factories contained average amounts of means of production and utilised the same techniques of production. In addition, demand and supply remained in balance so that commodities exchanged at their value. In sum, this meant all exchanges were **equal** eliminating the confusion between price and value.

Of course, capitalism does not work like this in real life. Capitals are different. The productivity of labour varies within industries, between industries and countries. Demand and supply are continuously disrupted by innovation, the flow of investment and the introduction of new products ('must have' use values). The class struggle results in higher or lower income for workers and thus changes in the balance of production. Oh, and let us not forget speculation!

The surface of capitalism is therefore very choppy indeed. So choppy in fact, that one would become sea-sick in no time if one were to try and analyse everything at the same time. It takes Marx two volumes and hundreds of pages to describe capitalism in its pure form, to isolate its structure in its entirety. Only when he has done so, can he move on and start reintroducing the complicating factors which makes capitalism real. This he does in Volume III. No longer is every capital similar or average, they now vary, they are dissimilar, but because Marx has isolated all that is common to every one of them, he can now describe how the variations between capitals modifies their relations.

The net result is that exchange is no longer taken as equal because capitals are dissimilar. (Note 2.) This means prices and values no longer coincide but diverge as they do in the real world. Prices either rise above their value or fall below it. Had Marx not begun with equal exchange he could not have explained value and therefore price because their divergences would have made that impossible, nor could he go on to explain the laws governing these divergences. This is similar to the example of our faces. Before we can explain why our faces differ, for example why skin colour varies, we have to first understand the biology of our common skin, otherwise we cannot explain why the sun, latitude and altitude leads to changed skin colour and texture.

Volume III is therefore no longer abstract but concrete. It deals with variations as they occur in the real world. New categories are introduced which include the composition of capital, the averaging out of the rate of profit and its equalisation, prices of production and market prices, all of which are analysed in the body of this pamphlet. Differences and the weight of differences exert their pushes and pulls on the structure of capitalism giving it its final shape though this may be momentary.

It is of course the paradox of paradoxes that in a capitalist society nominally based on equal rights, it is unequal exchange that makes profitability work. Were it not for the possibility of unequal exchange, and therefore the ability of an individual capitalist or set of capitalists to not only exploit their own workers, but the workers of their less productive competitors as well, the profit motive would fall apart. It is this dynamic that Marx revealed when his analysis became concrete in Volume 3. So not only do the learned professors dismiss Marx's methodology, but through so doing, they also dismiss the possibility of understanding how the economic system that pays their outsized salaries, actually works.

Readers are encouraged to read 'Das Kapital'. It remains as relevant today as the day it was first written. It is both a critique of Capitalist Production as well as a primer for a future Communist Society. It is a formidable piece of work which requires patience and diligence. But then it investigates and describes a formidable mode of production that has revolutionised the life of humanity and survived repeated episodes of crises and political challenges. And it has been assisted in doing so by the fact that capitalism, being such a confusing economic system, has bewildered and handicapped many of its opponents.

Note 1. This corresponds to evolution. Humanity began with a single tribe in Africa and evolved into billions, and having traversed the globe and survived many challenges, we have an extended specie that has different skin colours, hair texture, blood types and so on, none of which makes us less human, only different.

Note 2. If we add up all the times commodities exchange above their value and subtract the times they exchange below their value we arrive at 0. Looking at the world economy as a whole these variations cancel each other out so that the global total of prices equals the global total of values at any given time under conditions of normal growth.

CHAPTER 1. WHY CAPITALISM TENDS TO CRISES?

To understand socialism, we need to understand the economy that gives rise to it and makes it possible – capitalism. Capitalism is the highest expression of economy based on the private ownership of the means of production and the realisation of its potential.

Approximately ten to twelve thousand years ago, the first great leap in the productivity of labour occurred when (wo)mankind mastered the science of growing crops. More precisely it was the combination of irrigation and crop cultivation that marks this huge divide. The hunting and gathering which sustained us for two hundred thousand years gave rise to herding and farming.

Through farming selected grasses, which were also storable between growing seasons, farmers could generate a more or less permanent agricultural surplus. The need to master irrigation also led to co-operative labour. Both led to a change in consciousness. For the first time a section of humanity could imagine not working by making others work for them, thereby raising themselves above the general condition of that society.

The objects of war now assumed a new goal, that of acquiring slaves to farm. Men the hunters now became the warriors and their spoils, slaves and their product, became their property. Society split into classes, divided into those who owned but did not work and those who worked but did not own. The state came into being, a body of armed men to police this new exploitative relationship and protect the private property of the exploiting minority.

Alongside the appropriation of this new wealth came the need to preserve it for the future by passing it on to heirs. For this to happen the male blood line had to be made pure so that the exploiters' seed would inherit it. Accordingly, women now wives, had to be rendered celibate to all but their husband. They were reduced from the exalted sex to mere chattels. The advent of class society marked the transition from a matrilineal society to a patriarchal society and represented the world historic defeat of womankind (Engels).

Even god was transformed by this leap in productivity. Hitherto man was utterly dominated by nature and subject to its vagaries. God(s) was represented as elemental forces found everywhere, who had to be revered and placated up to and including blood sacrifice. Through irrigation, (wo)mankind took its first step in domesticating nature.

(Wo)mans' presence was now reflected in their works and so they confidently recast god in their own image. Particularly in Egypt though not limited to it, the collective harnessing of the mighty river Nile, saw the emergence of gods and goddesses walking the earth clothed in human form. From there it was a small step for rulers and kings to legitimise their rule by claiming divine right and appropriating the status of living gods (god-kings).

The political rebellion against this historically specific form of oppression always took a counter-religious form: the rejection of living gods in favour of a divine being who is not from this earth but earth itself. This was the substance of the rebellion by a section of Egyptian society – the Jews - against the Pharaohs and their claim to be divine rulers. It was this rebellion that laid the foundation for monotheism and through it the emergence of one of the dominant branches of contemporary religion, the judeo-christo-islamic tradition, the great feudal religions.

THE EMERGENCE OF THE MARKET.

For ten thousand years, agricultural production dominated society regardless of whether it was based on slavery, feudal or Asiatic modes of production. In so far as there was industrial production, it was subordinated to agricultural production. It processed the results of agriculture, prepared its implements and storage vessels and provided the means of transporting the resulting produce. Though industry was not limited to agriculture, most of the industry that existed outside of it was squandered on wars, palaces and temples. Empires grew and fell in proportion to their ability to extract a growing agricultural surplus and survive changes in the weather. None evolved into a higher mode of production.

It was only in the 14th Century in Europe that the conditions for capitalism emerged and with it the conditions for large scale industry. For industry to triumph, the factors of production – land, means of production and labour power – had to be separated from their immediate owners and producers and converted into commodities which could be bought and sold on the market. This meant the monopoly of land ownership by the feudal lords and the church had to be broken. The guilds, with their restrictive craft practices and monopoly of tools, had to be bypassed. Above all there needed to be an army of impoverished landless labourers who could now only survive by seeking work from others, and for this to happen they were brutally stripped of their instruments of labour and driven off the land.

These conditions matured in Europe seven hundred years ago. The expropriation of Church lands, together with the bankrupting of the nobility, freed up the land. The enclosure movement drove peasants and serfs off the land and into the new industrial towns. The pooling of capital which made the factory system possible destroyed the unproductive guild system which had been based on an individual's craft. This was no peaceful process. It was brutal and inhuman taking centuries. Capitalism emerges into the world dripping blood from every pore (Marx).

In short, with the factors of production having been turned into commodities, they could now be freely bought by the moneyed capitalist and put to work producing new goods for sale and profit. In this way the capitalist social relation was established. This was the genesis of generalised commodity production which evolved into capitalist commodity production.

The purpose of production changed. Instead of production for use it was now production for exchange. Henceforth producers could only exist if they had the capacity to produce useful goods for exchange, and cheaply enough. If they were unable to produce or sell any commodities, they had no access to cash and without cash they had no means to consume any of the commodities produced by the rest of society. Excluded from the market by the lack of cash, they were forced to endure the worst kind of poverty: the poverty that resides alongside plenty. Beggars outside the gate of capitalism.

Exchange now stood between production and consumption. It follows that should exchange break down for any reason, production and consumption become disconnected. This, at its most abstract, is the source of all capitalist economic crises. Whereas most pre-capitalist economic disasters were precipitated by natural disasters, capitalist economic crises are social, brought about by a disruption in the exchange of commodities.

This breakdown is not due to commodities suddenly becoming useless and unwanted. They do not suddenly lose their shape or smell. Consumers do not suddenly lose their appetite or need for these goods. On the eve of any economic crisis much needed and useful commodities like food, medicines and clothes start piling up in warehouses and depots. On the other side, capital lies paralysed, its backbone – credit - shattered. Money capital and commodities face each other over an unbridgeable chasm.

So why do goods suddenly pile up on one side and money capital on the other? What can be causing this loss of perfectly good commodities; losses that can, and often do, exceed the damage caused by war? Why the breakdown in exchange?

The superficial explanation for this is said to be the lack of demand in society. Wages are too low, inequality too high, government spending too restrained. This view is called the under-consumptionist theory of crisis. It is inadequate because it fails to address the key question: who is the biggest consumer in society?

The answer is those who own and control the economic surplus of society. All exploitative societies produce a surplus which is then “stolen” from the actual producers. As a result, it ends up in the hands of the exploiters. In a capitalist economy, this surplus is called ‘capital’ and its owner is the capitalist class.

The capitalist owners of this surplus can do one of two things with it. They can either consume part of it for their own luxurious needs, or they can invest it in production. Marx called the former ‘unproductive consumption’ and it represents a huge burden on society. It is not to be underestimated. The top 1% own half of all global wealth or more than the bottom 90% put together. The richest 62 billionaires own more than the bottom 3.5 billion citizens of this blighted planet. (Oxfam) As a percentage of wealth and output, this inequality most probably exceeds that found in earlier societies.

But there is a second form of consumption by the owners of the surplus of capitalist society. Marx called it ‘productive consumption’ or, as it is more popularly known, investment. He called it ‘productive consumption’ as it was thrown back into production to productively expand it. While the private consumption of the capitalist class is a burden on society, the latter is vital to its wellbeing. Without investment, production would grind to a halt.

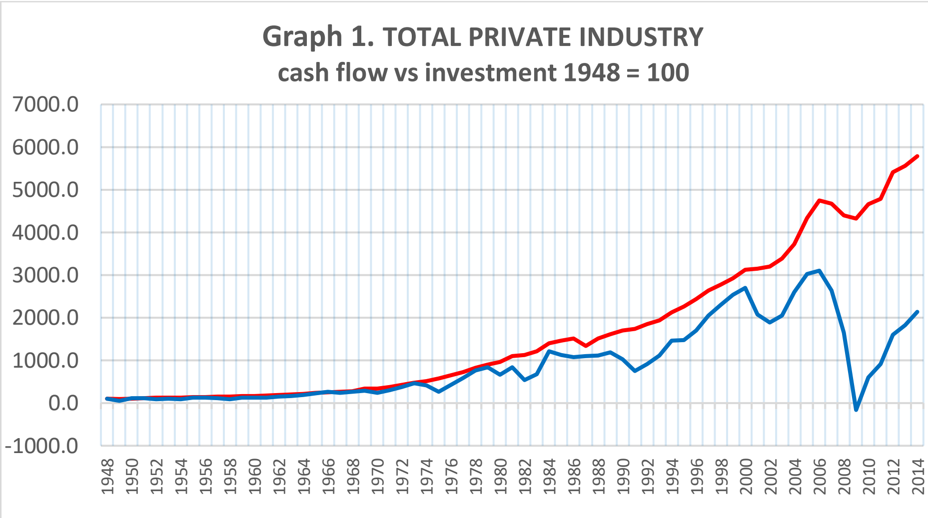
However, the decision by capitalists to invest this surplus is not driven by the need to benefit society but to enrich themselves. They are driven by the profit motive. They throw capital into production in order to realise more capital at the end of the process. As long as profitability remains strong, so does the incentive to invest. However, as soon as profitability wanes, so too does the urge to invest.

When investment falls or is held back, part of the surplus of society remains unused, idle or, what is the same thing, unconsumed. The capitalists build fewer factories or close down existing ones and they employ fewer workers or pay them less. In addition, this lack of investment which weighs on taxation, leads to a shrinking of the tax base thereby eroding the ability of governments to maintain their spending.

To borrow a medical phrase, an acute phase is a short but intense, even life threatening event; whereas a chronic phase is longer lived but less eventful. The same can be applied to profits. An acute crisis breaks out when the rate of profit has fallen so low that it precipitates a collapse in investment and with it a recession. A chronic case is one where inequality has risen so significantly and for so long, that investment has not kept up with the growth in profits slowing down productivity and production.

This chronic condition is charted in Graph 1 below. The upper solid graph is cash flow (or surplus) comprising depreciation and pre-tax profits. The bottom graph (broken line) represents investment in non-residential fixed assets, or what is the same thing, investment in structures, equipment and intellectual property. We notice how cash flow has soared since 1992, but not investment, resulting in a growing gap between available funds and actual investment. As a result, an increasing amount of capital lies idle or unspent.

Graph 1.



(Source: BEA Tables 1.13 for profit, Table 4.4 for depreciation and Table 4.7 for investment)

These two graphs can be compared to the two arms embracing socialism. The top graph represents the possibility of socialism, the huge surplus and its potential to both raise production and society. The bottom graph represents the necessity of socialism because the actual low rates of investment amount to the squandering of society's productive potential. The result of this rising gap has been a stagnant world economy, mass unemployment, productivity flat lining and speculative excesses.

How has this chronic condition been maintained for so long. The answer is easy money. Like Big Pharma, Central Banks have been treating the symptoms of this malaise with ever increasing injections of money. But this quackish treatment of symptoms causes the underlying condition to deteriorate and the patient, while being able to function, is actually getting sicker. This is what is happening today as easy money leads to the build-up of the debt clogging the arteries of capitalism.

As Marx pointed out, while all capitalist economic crises are a crisis of under-consumption, this is not caused by the under-consumption of the masses. Rather it is caused by the under-consumption of a tiny minority in society, the capitalists, who refuse to invest on behalf of society because they cannot be rewarded by sufficient profit. It is at this point that the idiocy of capitalism reveals itself in the form of rotting commodities, rusting factories, empty buildings, wasted skills and a general sense of decay.

THE LABOUR THEORY OF VALUE.

If we are to explain the contraction in investment and the subsequent breakdown in exchange, we need to locate the origin of the capital that is to be invested in production. Through his development of the 'Labour Theory of Value' in Volume 1 of 'Das Kapital', Marx provided this insight and answer. It is the 'Labour Theory of Value' that marks the great divide between the theorists of the working class and the apologists for the capitalist class.

We begin our odyssey with the commodity. A commodity is any object produced for sale. We know it has value, but what gives it this value? As in all matters related to class, there are conflicting explanations. Two classes, two theories, the first is psychological (subjective) while the second is real (objective).

First let us hear from the capitalists. They claim the value, and hence the price, of a commodity resides in its usefulness (or utility) and therefore in the eye of the consumer. It is a question of psychology, of need, what the brain tells the wallet. The more useful the commodity is perceived to be, or made to be, (by marketing and advertising), the more valuable it is and the higher the price.

This theory coincides with the position of the capitalist class as idle consumers. They are not workers; they are not direct producers; they consume only that which is produced by others. So they are content with the view that the value of a commodity is as high or as low as the consumer deems it to be. Price is merely a question of fashion or a matter of taste.

Of course this subjective view of value is riddled with contradictions. What can be more useful than the air we breathe? Without it we would be dead in minutes and all the usefulness of every commodity would be irrelevant. Yet air rarely has value. There are endless other examples. Water costs little, steel is cheaper than gold even though without steel there could not have been an industrial revolution, the leap in productivity and the emergence of world economy.

In fact the marginal theory of utility falls flat on its face when we recognise that, in general, objects over time become more useful (they have more features) and cheaper at the same time. Take flat screen televisions. Years ago when they were first introduced, they cost many thousands, today only hundreds and yet they have more utility: that is better screens with more features.

However there is another view of value. It is the value that arises in production, that is the process where materials provided by nature are turned into socially useful forms. Let us return to the example of air, and in particular the example of the aqualung. In order to swim underwater for more than a few minutes, divers need to compress and bottle air in an aqualung which is then attached to the diver's back.

Suddenly air has acquired value. You cannot walk into a diving shop and say, "Please fill up my aqualung for free because the outside air is free." You will be pointed to the sign on the wall which says, 'Aqualung refills £5.' Suddenly the air in the aqualung is worth £5.

Why £5? The £5 represents the cost of filling the aqualung; it covers the wages of the attendant filling the aqualung, the electricity needed to drive the pump, the depreciation of the pump every time it is used, the rent of the shop, profit etc. The air has not changed, only its form has, it is now compressed. If the aqualung burst after being filled and the air escaped, it could never be separated from the outside air. All that would have been wasted is your £5.

So why has the air in the aqualung suddenly acquired value? Anyone working in the diving school would quickly answer. 'If it were not for my labour, the air would not have found its way into your aqualung.' And so we finally arrive at the **objective** understanding of why commodities acquire value – which happens to be the **producers'** understanding of value.

Commodities acquire a value through being produced; that is by the application of labour. What is common to all commodities, despite the myriad shapes and forms they take, is that they are all products of labour. It is this that gives them their exchange value. So, while the capitalists are teaching their bright new students that value derives from utility, in the background their statisticians are using actual exchange values to measure their economies in the form of the National Accounts of which GDP is the leading example. It is as though capitalism has a split personality.

The expenditure of labour needed to produce any commodity which gives it value is measured by its duration – time. The value of a commodity expresses the socially necessary labour time incorporated in each and every commodity. The more socially necessary labour time expended on a commodity the higher its value and the less socially necessary labour time expended on it the lower its value.

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 that it refers purely to 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.

Having digressed, we can now return to value. Tap water has little value because little labour goes into purifying, sterilizing and piping it. Bottled water has more value because more labour time is involved in bottling and transporting it. Gold has a higher value than steel because it takes much more labour to mine and refine. The price of computers keeps falling because it takes less time to produce them.

VALUE AND PRICE.

'Wait a moment!' snort the capitalists. 'While we may disagree on what gives commodities their value, we also disagree that there is only one cost of production – labour. Besides the cost of hiring workers, there is my cost of materials, machinery, rent, interest and so on. All these things, not only wages, cost me money.'

Now we no longer have the argument of the idle consumer, we have the argument of the exploiter. Let us begin with land and rent. Two facts stand out. Firstly, while land provides the raw materials for production and a place to work, it was here long before the human race evolved to walk on it. Secondly, rent only emerges when a section of society manages to monopolise portions of the planet by excluding the rest of society from it. Gaining access to, or use of, this land now requires a cash payment or payment in kind – rent. To put it more crudely, but just as accurately, the land has been kidnapped and rent is the ransom for its temporary return.

If the land reverted to common ownership tomorrow, society could no longer be held to ransom. Rent as a cost would simply disappear.

And so too with machinery. Machines do not grow on trees. If they did, we would still be living in the Garden of Eden despite all the fallen apples or pears. Machines, like every other commodity, have first to be produced. They are the products of past labour. The production process can thus be defined as the process whereby today's living labour sets in motion the instruments of past labour (machines) in order to produce tomorrow's new products. Therefore, to say that commodities are produced by labour and machines is simply to say that they are produced by past and present labour, or labour in general.

The capitalists' concept of cost is shaped by the fact that the factors of production are privately owned. To use another's property requires payment for it. It therefore appears as a cost to the user. No sooner have we abolished the private ownership of the land and means of production/distribution then such costs would disappear as if by magic.

This leaves only a single cost of production – labour. If we all had to work, so that society was no longer divided into classes, no longer divided between those who work but do not own, and those who own but do not work, no one would dispute this. We would all be workers expending our labour in production transforming the world.

To sum up: every commodity is a product of the labour process. While commodities differ in shape and purpose, this merely reflects the different forms of labour needed to produce them and which in all its forms, results from the international division of labour. In addition, different commodities represent different quantities of labour. They therefore exchange in varying proportions. One car can exchange for ten thousand loaves of bread. This is because it takes much longer to produce a car compared to a loaf of bread, which takes only a fraction of the time.

The exchange value of a commodity is expressed in terms of its socially necessary labour times. The more time taken to produce a commodity, the higher its value. And conversely, the less time a commodity takes to produce, the lower its value. One car will exchange for ten thousand loaves of bread because it takes one thousand times more time to produce on average.

When barter gave way to exchange by money, the term 'price' was coined. Price is the money name for exchange value. (In volume 1, where Marx ignored variation, as we saw in the introduction, price coincided with value.) Different prices on average reflect different exchange values. The price of a car is high because more money is needed to exchange it and more money is needed because its exchange value is so much higher.

All commodities take time to produce, but as productivity increases, so less time is needed to produce the same commodity. Workers can now produce more commodities in the same time. What is the same thing, each commodity now incorporates less and less labour time. And as it incorporates less of society's labour time, its exchange value falls. It becomes cheaper and this should be reflected in lower prices. A prime example of this is computers which not only have become more powerful but a lot cheaper. Flat screen televisions are another good example.

The fall in value is expressed through growing price competition. Companies improve productivity in order to undercut competitors and capture market share. In turn competitors are forced to respond, to innovate and invest or perish. And so prices begin to fall within an industry, and between industries, reflecting the underlying fall in market values.

Competition at first appears to be a mysterious thing. Like air, it surrounds us with its invisibility. We only feel it when it begins to move. From time to time it gathers itself into a storm that buffets every corner of the market. But competition is not mysterious. Under capitalism production is carried out by thousands, if not millions, of independent companies. Capitalist society is therefore divided by the act of production and only re-united by the act of exchanging these products – the market.

It follows that any change in production in one part of the economy will only be felt when commodities are exchanged. These changes alter the terms of exchange or, what is the same thing, the prices at which these commodities are bought and sold. Hence competition is merely the transmission belt for changes in one part of the economy being imposed on the rest of the economy through the market.

As capitalism develops, production becomes increasingly socialised. In Chapter 27 of Volume III Marx refers to capital as no longer private capital but social capital. The large multinational corporations employ hundreds of thousands of workers and link thousands of individual investors. Soon every industry in the global economy will be dominated by no more than ten corporations.

However, no matter how large these corporations become, they remain independent producers walled off by private ownership. They are not linked directly but linked indirectly via the market. They still have to convert their products into money. As their size grows, as the complexity and cost of production grows, the market becomes increasingly disruptive.

The contradiction, between the socialisation of production on the one hand and the market on the other, grows. It begs to be resolved, and it can only be resolved through the abolition of the market. Production now becomes directly socialised ending competition. Instead of reacting to competition, society decides where and how to change production, prepares for it, and where once there was disruption, now there is coordination and economic stability.

WHERE DO PROFITS COME FROM?

The capitalist social relation comprises two exchanges. It begins with a **purchase** and ends with a **sale**. In the sphere of production, the purchase comprises the factors of production (namely labour power, means of production and land on which to site production). By reuniting the factors of production, the capitalist manages to set production in motion. At the end of the cycle of production the capitalist is in possession of a stock of products which he then **sells**.

During the first exchange, the purchase, the capitalist pays out cash. During the second exchange, the sale, (s)he recoups cash. (S)he makes a profit if (s)he recoups more cash than (s)he pays out. The difference, the surplus money, comprises their profit.

So how is the capitalist able to realise this surplus cash? Could it be that the capitalist is purchasing the factors of production for too little or selling the resulting commodities for too much? In other words, is the capitalist underpaying when purchasing or being overpaid when selling? Many radical thinkers assume the latter, that profits come from selling too dear, from being overpaid. They believe that, after the revolution, prices will come down as the profit margin, which the capitalists add to cost prices, is eliminated.

They are wrong. Marx understood that it was absurd to locate profits in undercharging for inputs or overcharging for outputs (from the mere act of buying in the sphere of distribution). If this was the case the profits of the purchaser would come from the losses of the seller and vice versa. These profits on the one side and losses on the other, would cancel themselves out and the capitalist class would be no better off.

No. Marx understood that the source of profits could not be found in the sphere of distribution but in the sphere of production. The source of profits emanated from the process of production itself.

This process begins with the capitalist employer or employers purchasing the factors of production which includes of course labour power (hiring workers). All these factors, including labour power, are purchased at their value. To simplify our understanding, we assume that all labour power is average and that the value of labour and its price are synonymous (Book 1). Labour power, or the capacity to work, like every other commodity, has a cost of production. It is the cost of maintaining the worker in a manner rendering him or her fit for work. The wages paid cover the food, shelter, transport, clothes, heating etc. that make workers useful and constitutes their standard of living.

The workers' labour power costs the employing capitalist a wage. The wage contract covers a specific number of hours of work. During these hours, the workers' time belongs to the capitalist. What he or she produces during this time also belongs to the capitalist. In short, all the labour expended during this time belongs to the employer.

When the capitalist sells these products at their value, they are paid for all the labour their workers have expended during the period of their hire. At this point the following question is posed: are the wages paid to workers equal to this expenditure of labour? This question flummoxed the classical economists like Smith and Ricardo who preceded Marx. They assumed that workers sold their labour to the capitalist class. But workers have nothing to sell their prospective employers except their capacity to work. When workers arrive at the door of their employer, they arrive empty handed and when they leave, they also depart empty handed until payday.

It was Marx's discovery of the distinction between labour power and the labour which results once this labour power is put to work, that fleshed out the labour theory of value. It was this distinction that gave rise to his revolutionary insight into the distinction between the paid costs of production and the actual costs of production. As we are about to see, what the <u>worker costs the capitalist</u> is not comparable to what the <u>capitalist costs the worker.</u>

The labour expended in production is a **<u>cost to the workers</u>** who expend it. However, it only becomes a cost to the capitalist when they have to pay for any of it in the form of a wage or salary. This is the paid or monetary cost recognised by the capitalist. It follows that if the value of these wages or salaries is less than the value of the labour expended, some of this labour will go unpaid. And if it does, it means the paid cost of production will always be less than the actual cost of production.

But if the paid cost is less than the actual cost, it means that some of the actual cost of production is going unpaid. It means that workers produce unpaid labour. The secret of profit is finally revealed. It is this unpaid labour that forms the profits of the capitalist class. So, at the profitable heart of capitalist production is unpaid labour. It is this unpaid labour that allows the capitalists to pay out less money at the beginning of the production process compared to the money they receive at the end of the process.

That is why they are left with surplus money – the source of their profits. And the more money they are left over with, the more unpaid labour they have benefited from. And this unpaid labour is enormous. When a typical worker works for 45 years, he or she will be working 27 years unpaid for their employers, not quite slavery, but close.

We have therefore arrived at the distinction between paid costs of production and actual costs of production. The only costs capitalists recognise are the ones they have to pay for. If workers were paid for all their labour, then of course there will be no difference between the actual and the paid costs of production. But then the capitalists could not make any profits and their system would collapse.

Capitalism survives and thrives because the paid costs of production (cost to the capitalists) are always less than the actual costs of production (cost to the workers). Unpaid labour is the fuel that drives capitalism. That is why capitalism will always cost the worker more than the worker will cost the capitalist.

An example will demonstrate this. In the old days, gold acted as money. Let us say a gold mine employed 1000 workers who worked for a wage of 10g of gold coin equivalent per day. Accordingly the daily wage bill for the mine was equal to 10kg (1000 workers x 10g each) of gold. However, if the miners produced a net 50kg of gold each day, we could say that the **actual cost** of their labour was equal to 50kg of gold. But because they were only paid for 10kg, their paid labour amounted to only 10kg of gold leaving 40kg unpaid each day.

Now mark this. To the capitalists, the cost of their workers' labour is only 10kg, whereas the hidden cost to the workers for their labour is really 50kg. They are underpaid by an equivalent of 40kg which magically appears as profit to the mine owners. (For the purpose of the example we ignore the cost of wear and tear and materials used in mines such as energy, pit props etc.)

Two costs, two realities, two opposing classes. The ability of workers to produce more labour than is needed to maintain themselves is of little interest to the capitalist. All that concerns the capitalists are the paid costs of production, the ones that cost them cash. The hidden cost to the worker, his or her unpaid labour, is of no concern to the capitalist because it is the source of his or her profits, their social power, their status and their elevation above the conditions of the working class.

Unfortunately, because unpaid labour always remains hidden, it makes it more difficult for workers to uncover the true source of profits in the capitalist system. It requires the scientific method developed by Marx, which looked below the appearance of things to extract their essence, their true origin. The capitalists take everything and give us back little. We want it all back, it is ours, it was always ours.

An elegant way of elaborating on this exploitative working relation is to divide the working day into two parts. The first part of the day may be described as the paid part. During this time, workers produce sufficient labour to reimburse their capitalist employer for the capital spent on their wages. The second part, the unpaid part, is the time employees produce surplus labour, surplus value and therefore the profits of the capitalist class.

In the case of the gold mine described above, where workers are paid for 10kg of the 50kg of gold they produce, the paid part of the working day would be one fifth or 20% of the working day. The unpaid part equal to 40kg would represent four fifths or 80% of the working day. If the working day was ten hours, then two hours would be paid and 8 hours would be unpaid.

It follows that the rate of exploitation can be measured by the ratio between the paid and unpaid part of the working day. The shorter the paid part compared to the unpaid part, the higher the rate of exploitation. In the case of the gold miners the rate of exploitation is 400%, composed of 80% unpaid divided by 20% paid.

As workers become more productive, they produce cheaper commodities due to each commodity costing less labour time to produce. Accordingly workers now need a smaller real wage to maintain their standard of living, because the goods that make up this standard of living are cheaper. And if they need less wages to maintain themselves, and the capitalists can impose lower real wages, it follows workers will be paid for less of the working day. Consequently there will be a shrinking of the paid part of the working day and an extension of the unpaid part of the working day resulting in a higher rate of exploitation.

We can see therefore that the battle cry of the trade union movement, "A fair day's pay for a fair day's work!" is meaningless. There is no such thing as a fair wage because a wage, no matter how large, always represents payment for only part of the working day. Nor can there be a fair profit, for no matter how small profits are, they still represent unpaid labour. All that the trade union struggle achieves is a fight over the division of the working day into its paid and unpaid part. At best, it prevents the capitalist class from stealing all the gains resulting from the rising productivity of the working class.

What is needed, which Marx called for, is the abolition of the wage relation itself. We need to discard the view of the capitalist class – that the only costs in society are the ones that they pay for. Instead we need to adopt the revolutionary view that unpaid costs are a cost to the working class. That the profits, the rents and the interest that the capitalist class live on are a cost to the working class which should no longer be tolerated.

Until then, unpaid labour will continue to be converted into capital which confronts workers, not as their product, but as the private property of another class. It appears in the market as an external and coercive force that employs workers only in order to extract more unpaid labour from them. And it does so over and over again, growing in size, dwarfing the worker, making him or her feel increasingly insignificant, ever more subordinated by his or her own product.

However there comes a time when this unpaid labour is not converted into capital. It fails to set production in motion and circulate commodities. It no longer functions productively, lies idle as though crippled. We will now look at what causes the breakdown in the production of unpaid labour and its conversion into new capital, and therefore the crisis of the capitalist economic system. But before we do so, we need to wander into the mists that surround paper money.

THE VEIL OF PAPER MONEY.

Earlier we talked about the cheapening of production through the effect of that rising productivity has on labour times. We could therefore expect the systematic fall in the value of commodities to be met by an equivalent fall in prices. Yet, with the exception of Japanese workers following the crash of 1990, most workers have only experienced rising prices – inflation.

However, there were times when prices fell internationally. The most notable period was called the 'Great Deflation' and lasted for twenty years between 1870 and 1890. It coincided with what is called the 'Second Great Industrial Revolution' (cheaper steel, railroads etc.) which boosted productivity and ended with the huge gold discoveries in South Africa in 1886.

This deflation occurred because gold still acted as money. Currency was tied to it. During this time the value of gold remained constant. Let us say that on average, 1kg of gold represented 100 hours of labour time. It followed that 1kg could circulate commodities that cost 100 hours to produce, for example 5000kg of steel. The price of 5000kg steel would be gold coin equal to 1kg (or 100 hours of socially necessary labour time).

Now let us assume that the Bessemer method of producing steel is introduced, as it was, around 1870 so that 5000kg of steel now only takes half the labour time to produce – 50 hours. 100 hours of labour time in the steel industry is now crystalised in 10000kg of steel, because workers produce twice as much steel in the same time. Now it takes 10000kg of steel to equal 1kg of gold meaning that 5000kg of steel is now worth only 1/2kg of gold coin. Measured in gold, the price of steel has halved.

Of course, the opposite can also be the case. If the value of gold falls, more gold is needed to circulate the existing exchange values. The consequence of the opening of the South African gold mines based for the first time on the industrial extraction of gold, was to reduce the cost of producing it. Gold became less valuable as the labour time needed to produce an ounce of gold fell. More gold was now needed to circulate the same number of commodities. Prices rose again and this put an end to the Great Deflation.

This reflected earlier experiences. For example, the Spanish plunder of silver and gold in the Americas flooded the European market with precious metals between 1650 and 1750 reducing the overall value of the existing stock of gold and silver and leading to great inflation.

It therefore follows that the fall in labour times need not be reflected in lower prices if the value of money itself changes. Money is the standard of price just as the meter is the standard of distance. A meter is 10% longer than a yard, so a distance which is 100 yards long is only 90 metres long. We could say, measured in metres the distance has shrunk but we would be wrong, the actual distance is unchanged, all that has changed is the measure. So too with money. If it increases as a measure, all prices fall, and if it decreases as a measure, all prices rise.

In other words, we are addressing the issue here concretely by introducing the variation in the value of money. If money becomes less valuable more quickly than the value of the commodities it buys, it means prices will actually rise. And one event in particular can devalue money quickly, the emergence of paper money. The 20th Century will be remembered as the century during which the linkage between paper money and gold was finally severed. Now there was nothing to stop governments debauching money. Paper money became symbolic money with no intrinsic value, except the backing of the state and its taxes. The 20th Century became the century of inflation and hyperinflation.

Systemic or chronic inflation, i.e. perennially higher prices, from the perspective of the working class is a fraud. If profits are legalised theft, then inflation is a fraud perpetrated to preserve and increase them. Inflation has and will continue to act as the barometer of the class struggle. It increases with the intensification of class struggle and falls with the collapse of class struggle.

As long as the balance of class forces is favourable to workers and they are able to defend their wages, the capitalists have to resort to inflation. In other words their state debauches the money they pay their workers in wages. Should wage rises fall behind price rises then workers experience an actual pay cut. Of course the capitalist class would rather not resort to debauching their currency. It threatens the equilibrium of the economy, the value of capital and the relationship between debtor and creditor.

Better to smash the working class and its organisations. Better to decisively alter the balance of class forces in their favour. If inflation began to fall in the late 20th Century, that owed everything to the successful offensive by Reagan and Thatcher against the organised working class. It owed nothing to Milton Friedman and his infantile doctrine of monetarism.

However, if the capitalists fear rising inflation, they fear deflation (falling prices) even more. Falling prices not only make it harder to clear debts, but more importantly, it would mean that the capitalist class would have to cut the wages of the working-class year by year. Amidst falling prices, a steady wage would mean a wage rise. Assuming 2% deflation each year, the same wage would be capable of buying 2% more goods and therefore represent a real increase of 2%. A constant wage amidst falling prices means the workers retaining the benefits of their rising productivity and that to the capitalist employers is intolerable.

Deflation benefits the working class and inflation the capitalist class. Non-cyclical inflation, whether in the hands of the capitalist class or, as we shall see later, in the hands of Stalin, always and everywhere represents an attack on the working class.

(It is worth pointing out that the capitalists have no evidence to claim that falling prices would curb consumption as consumers waited for prices to fall. In fact falling prices have increased demand under capitalism rather than curbed it. Falling prices have been the precondition for the emergence of mass markets in every sphere of consumption from cars in the 1930s, to jet travel in the 1970s and to electronics in the 1990s.)

UNEQUAL EXCHANGE IN A SOCIETY BASED ON EQUAL POLITICAL RIGHTS.

Up to now we have assumed as Marx did in Books 1 and 2 that all capitals (companies or partnerships) were average. As a result, exchange between them was equal so that prices did not deviate from values. In real life, however, matters are more complicated. Capitals tend to differ for a whole number of reasons.

In a world of differing capitals exchange can no longer be equal. This means that in some cases prices will rise above their underlying value and in other cases they will fall below. In other words some sellers will receive back more value in the form of money compared to the value of the commodities sold, and in other cases they will receive less value in the form of money compared to the value of commodities sold.

However, it must be born in mind that in the end all the minuses and plusses cancel out so that the total value of commodities sold in the world economy will equal the total price paid for them. It is like spinning a balanced coin. Some of the time heads will predominate and sometimes tails will. But if we spin the coin for long enough, the number of times heads turns up and the number of times tails turns up cancel each other out and the ratio averages out at 1:1.

Returning to the economy. Because industries differ and capitals within an industry differ, exchange tends to be unequal. Due to this inequality, companies that are able to sell their commodities at a price higher than their value earn an extra profit and companies that are forced to sell their commodities at a price below their value lose some of their profit.

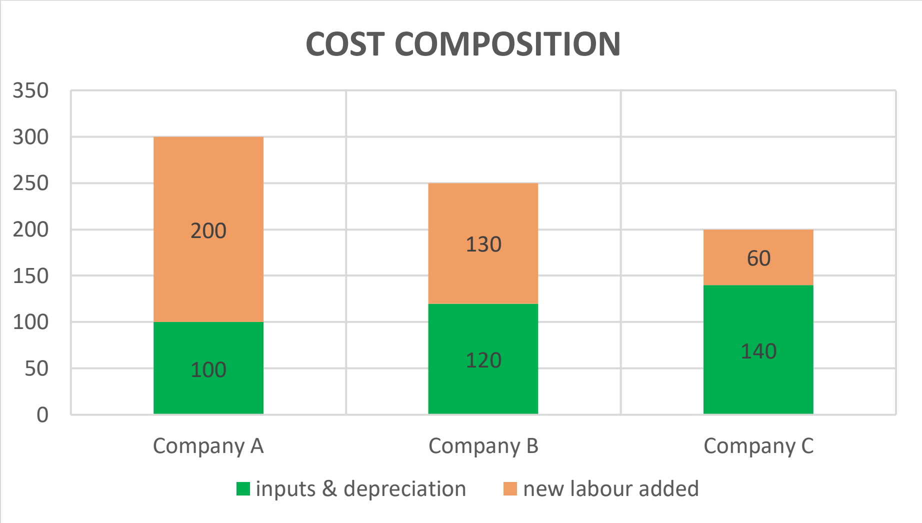
First a paradox needs to be addressed. Capitalists tend to invest in labour saving techniques to reduce their cost price. They end up employing relatively fewer workers. But this means that the labour expended is reduced and with it the unpaid labour element. So how do they end making more profit, not less?

Thus, what needs to be explained is where these extra profits come from. Is there a way for the loss of unpaid labour produced internally to be made good 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. The mechanism for this is money which acts as a bridge between producers allowing unpaid labour to flow between them.

To demonstrate what is happening, there are a series of graphs below, which are visual presentations of these flows. 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. These actual costs of production comprise the cost of inputs (materials, power etc.) and wear and tear of machinery and equipment (depreciation). In other words old labour consumed producing it. To this is added the new labour expended in the production process in order to complete the product.

We note in Graph 2 that 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.

Graph 2.



Having looked at the crude cost of production we need to move on to the terminology used by Marx. Marx described anything to do with the investment in materials and equipment (past labour) as investment in **constant** capital. He then broke down the new labour added into its two components. **Variable** capital described the portion of the new labour that is to be paid. In other words variable capital provides the wages and salaries paid to employees. Finally he referred to the unpaid segment as surplus value which generated the surplus money gifted to the capitalist class and which formed their profits.

Thus from now on we will refer to the actual costs of production as being equal to c + v + s where c = constant capital used up, v = variable capital and s = surplus value.

Graph 3 below details these costs of production in their new format. They are:

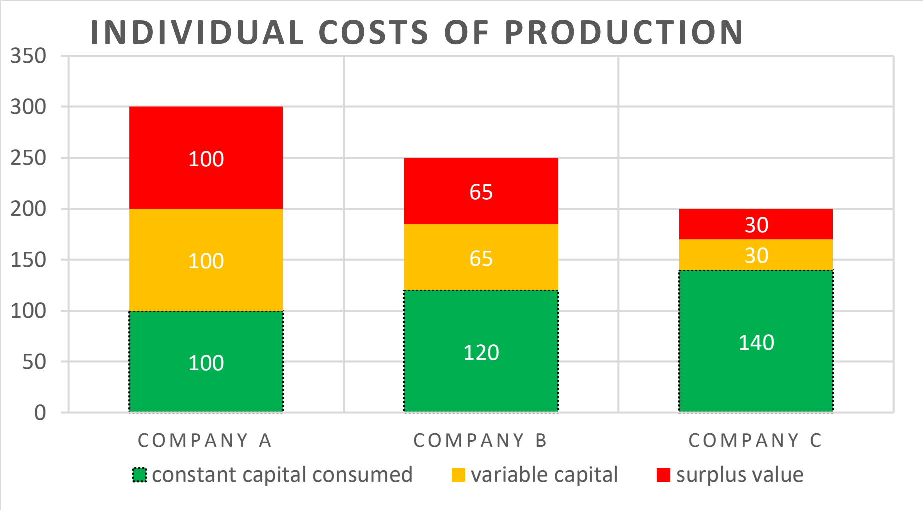
(A) 100c + 100v + 100s = 300,

(B) 120c + 65v + 65s = 250

(C) 140c + 30v + 30s = 200,

yielding an average cost of production of 250.

Graph 3.

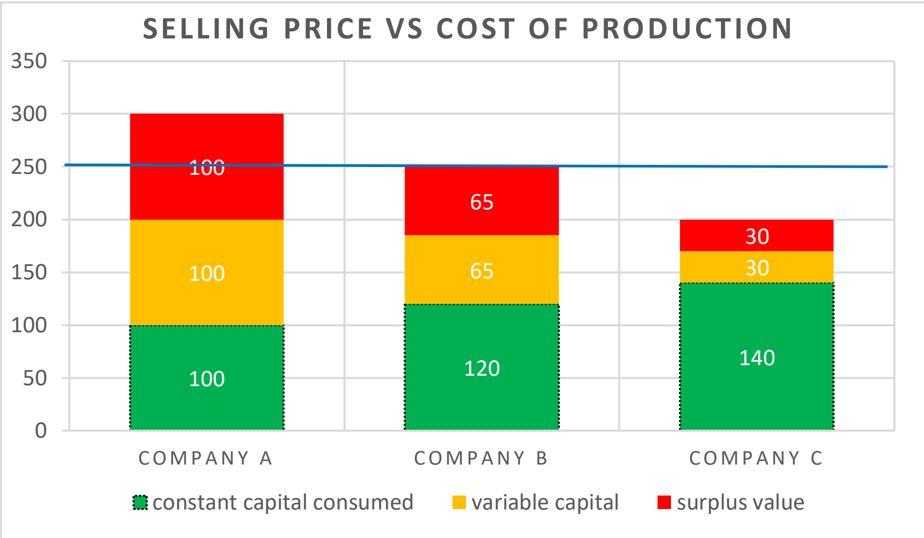


Company A consumes the least constant capital and Company C the most because here workers work with more means of production and thus the throughput per worker is highest. However, because A is more labour intensive it produces more value, or 200 units of value of which 100 is unpaid. C on the other 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.

The blue line in Graph 4 below represents the new market price.

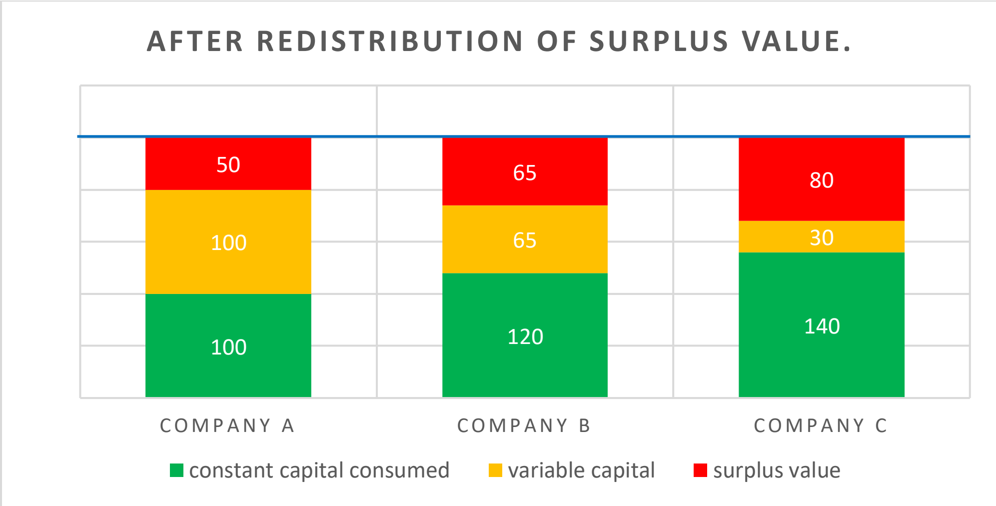
Graph 4.



The blue line in the graph represents the selling 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.

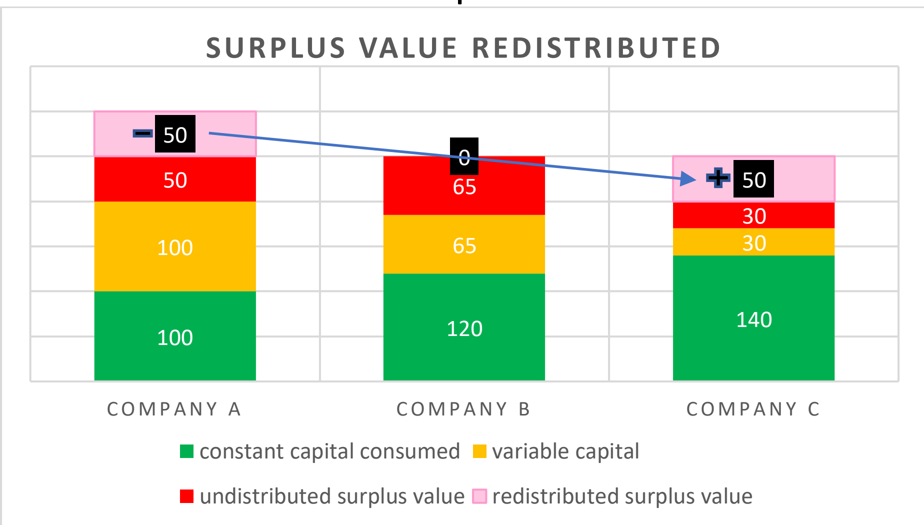
The effect of this redistribution of surplus value through monetary means and the market price is shown in the next graph below.

Graph 5.



The surplus value realised by A has shrunk while 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 6. A's realised surplus value shrinks from 100 to 50 while C's swells to 80.

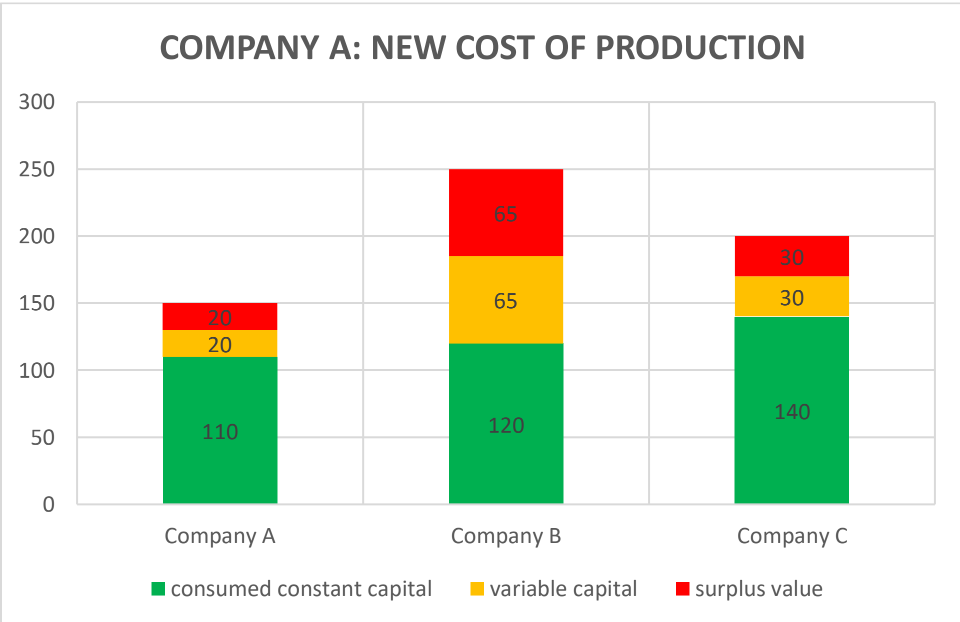
Graph 6.



Paradoxically, despite its workers producing the least amount of surplus value or unpaid labour, C now 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.

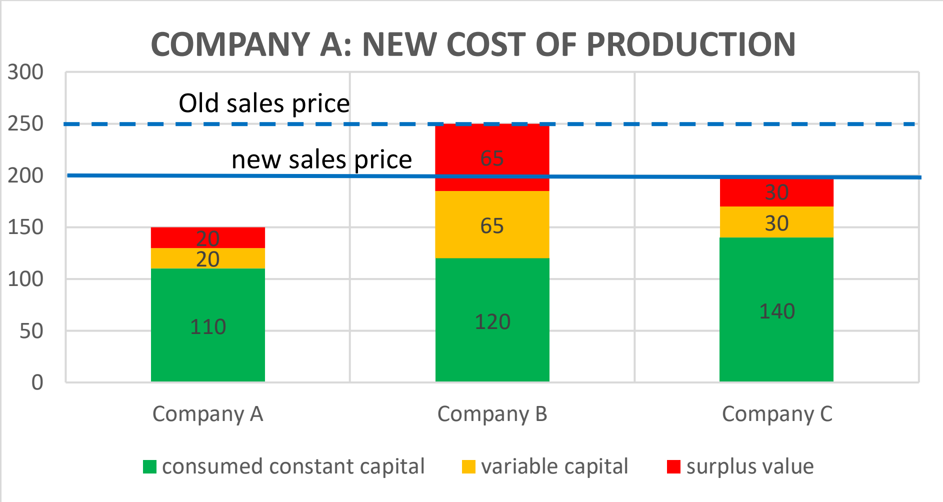
Of course, the pursuit of profit is the goal of any set of capitalists. Concerned with their loss of profit Company A decides to invest in a brand-new technique of production. This investment does not affect volumes only the costs of these outputs. Each firm continues to produce one third of the total output so that we are freed from using weighted average labour times. Graph 7 shows the new cost structure for Company A whose new technique is both input (less waste) and labour saving.

Graph 7.



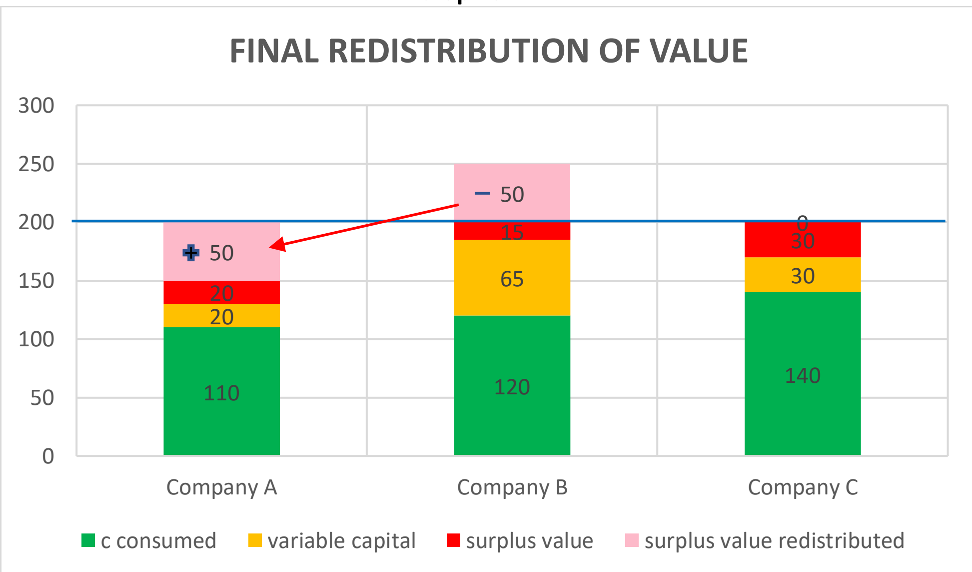
As a result of the fall in labour time in Company A, the average selling price also falls. (150 + 250 + 200 = 600 divided by 3 = 200) The old selling price of 250 has now fallen to 200. We note that as a result of this fall, Company B's cost structure is above the new selling price while Company A's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

Graph 8.



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 9.



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 here 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 above 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.) In effect the paid part of the working day will be reduced while the unpaid part will be expanded increasing the relative rate of exploitation.

The key point being made is that unequal exchange rewards any investment which raises productivity, and which reduces the individual cost of production below the average. When that happens profits flow from the higher cost producers to the lower cost producers just as air flows from high pressure to low pressure zones. This kind of investment allows a set of capitalists to not only rob their own workers but the workers of their less productive competitors as well, and it is this mechanism which initially encourages investment because it rewards the investor with additional profits immediately. But never mind, in the end all of the capitalists gain as the weight of investment throughout the economy drives down market prices of the goods workers depend on making it cheaper for capitalists to employ them.

We introduce this by way of explanation as to how improvements in productivity ultimately benefit the capitalist class as a whole. Every reduction in v increases the amount of s and therefore profits. But this is not the reason capitalists invest initially. They invest only if they expect an immediate increase in their profits large enough to increase their rate of profit as well. This extra profit only occurs because of unequal exchange, whereby money is used to not only rob their own workers, but the workers employed by their less productive competitors. Only later do other capitalists invest to defend their profit, and it is through this continuous exercise in competitive aggression and defence, this tug of war over productivity, that capitalism ends up economising on labour time.

Without exchange, there would be no unequal exchange. We have laboured the point of unequal exchange deliberately. We do so in order to lay the basis for our understanding of why the profit motive could not work in the Soviet Union where exchange was systematically abolished after 1928. Under capitalism the profit motive dynamically raises the productivity of labour. In the Soviet Union it had the opposite effect for reasons we shall explain in Chapter 2. The introduction of profit in the USSR did not help the economy but damaged it and this was one the reasons the system failed. In short, the profit motive is unique to capitalism, its spirit is firmly and exclusively attached to the earthly world of commodity production. But even here it has its limitations.

THE TENDENDENCY FOR THE RATE OF PROFIT TO FALL.

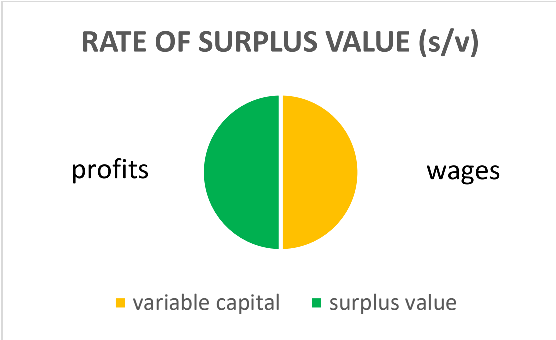
We can now return to the question of profitability. More precisely, the rate of profit which is the amount of profit returned compared to the amount of capital invested. Marx was not the first to discover the tendency for the rate of profit to fall. David Ricardo, the great English-born economist who followed Adam Smith, were both aware of it. Ricardo witnessed the growth of the urban industrial proletariat, and their growing organisation and confidence. He therefore attributed this fall to the rising wages these workers obtained.

It was Marx who corrected Ricardo. In the previous section, we followed Marx in recognising that rising productivity, which cheapens production, allows for both wages and profits to rise simultaneously. Marx showed that under conditions of rising productivity and an expanding market, wages and profits could rise together, with the proportions on each side decided by the class struggle and the conditions in the labour market.

However, to this day, the shallow thinkers of the capitalist class continue to blame the falling rate of profit on rising wages. Workers on the other hand, would be fools to fall for the argument that higher wages reduce profitability. We will be delving deeper into this important question in this section.

To explain the rate of profit and its tendential fall we will use three graphs. Graph 10 below shows the ratio of profits to wages, or in their value form, the ratio of surplus value to variable capital.

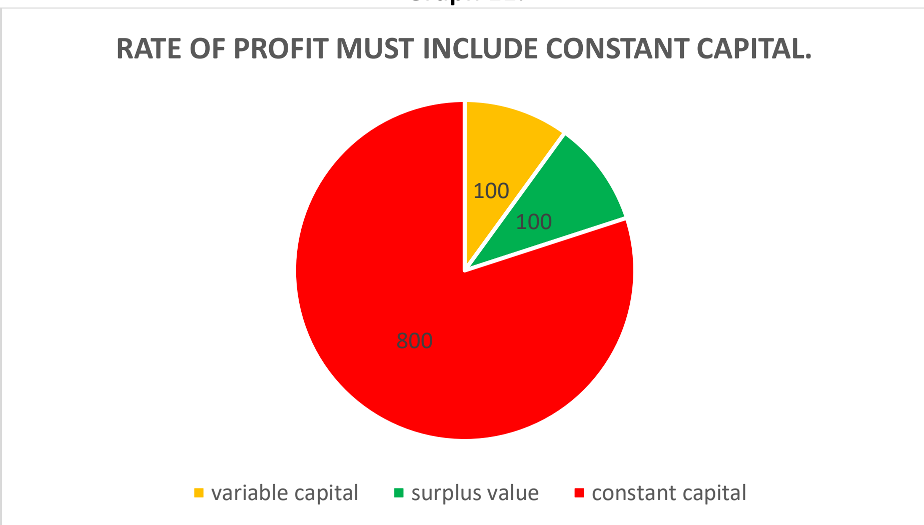
Graph 10.



Marx called the surplus value to variable capital or s/v, the rate of surplus value. The rate of surplus value is not the rate of profit. But this ratio will inform the rate of profit because it is a measure of exploitation, and any rise in the rate of exploitation is good for the rate of profit because it increases how much profit each worker produces.

Our next graph is the rate of profit because it now includes constant capital. As capitalism develops capitalists invests in more and more machines and relatively fewer workers. Workers end up working with much more machines and equipment, as well as more inputs as throughput accelerates. Thus constant capital outgrows the other two components as the graph below shows to become the biggest component.

Graph 11.

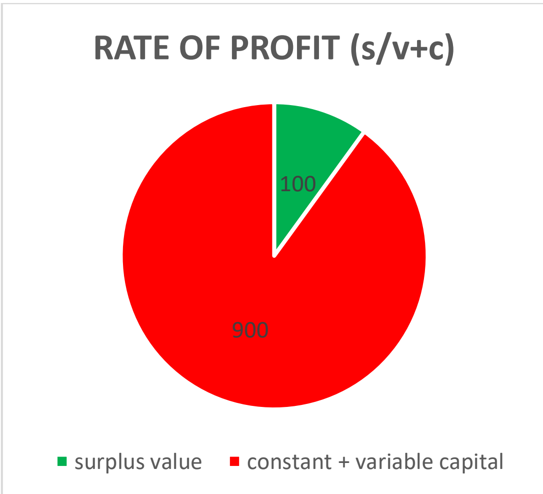


Two things stand out. The slices representing variable capital and surplus value have shrunk, while the whole pie has gotten larger. It has grown from 200 to 1000 (800c +100v + 100s). From being 50% slices (100/200), variable capital and surplus value have shrunk to 10% segments or 100/1000. This growth is entirely due to the introduction of 800 in constant capital.

Marx called the ratio between the physical quantity of means of production employed compared to the number of workers employed, the technical composition of capital. The more machinery and equipment that is employed compared to workers, the higher the technical composition of capital. Similarly if we convert to value, the value composition of capital is the ratio of constant capital to variable capital. The more constant capital employed relatively, the higher the value composition of capital. In Graph 11 the ratio is 800% or 800 constant capital to 100 variable capital.

As a result of this 800c the rate of surplus value which was 100% before is now converted into a rate of profit of 11% or 100/900 as shown in Graph 12. (Total capital is equal to constant plus variable capital.) The formula for the rate of surplus value is s/v whereas the rate of profit is s/(c+v).

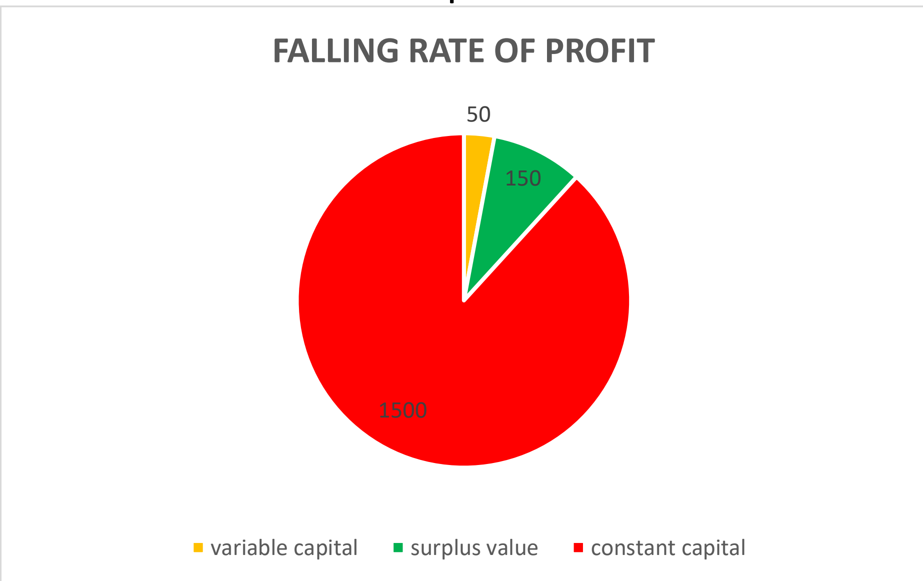
Graph 12.



We can now see how wrong it is to use the ratio of profits to wages as the rate of profit. It is to ignore the biggest component of capital, constant capital. It therefore follows that the amount of capital invested can increase without the quantity of wages increasing, provided more capital is invested in means of production or constant capital. When capitalists calculate their rate of profit, they calculate it over the total investment, not only that part which is spent on the employment of workers. Only the rate of profit can therefore inform the capitalists what their return is, whether it should go ahead and by comparison, whether it is being invested in the right place. Thus the rate of profit not only provides the measure of profitability but also its compass.

The introduction of constant capital above yielded a rate of profit of 11% for a composition of capital of 800%. What needs to be explored now is what happens to the rate of profit when the composition of capital rises above 800% as has happened in Graph 13.

Graph 13.



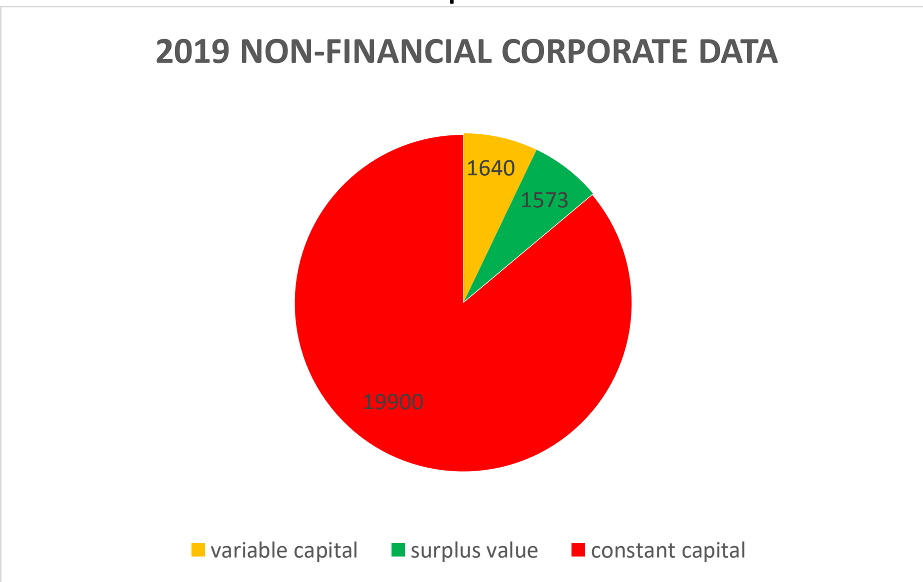
The amount of capital has grown absolutely which is why the pie is bigger. The reason being that constant capital has grown to 1500 from 800. Additionally, this new investment has also resulted in fewer workers being needed and consequently their number has fallen by half. Variable capital has therefore been reduced from 100 to only 50. However, because these workers have been made much more productive, they can each produce more surplus value. Accordingly, the total surplus has risen to 150. (In terms of the rate of surplus value, it has increased to 300% from 100% previously, or from 100/100 to 150/50.) Fewer workers but more profits, the gift of investment.

Now let us look at the rate of profit. Total capital has risen to 1550 comprising 1500 constant and 50 variable capital. Surplus value has risen to 150. 150/1550 yields a rate of profit of approximately 9.7%. So despite the rate of surplus value going up the rate of profit has come down from 11%. This is entirely due to the increase in constant capital and with it the value composition of capital.

This is consequential. Any fall in the rate of profit erodes the incentive to invest. Any resulting diminution in investment undermines reproduction and precipitates economic crisis. If there is an underlying tendency for the rate of profit to fall, it means there exists within capitalism a fatal flaw, an arrhythmia that will ultimately prove fatal to the patient.

This is confirmed when we look at actual data taken from the System of National Accounts, in this case data for the non-financial U.S. corporate sector in 2019. (All figures are in millions of Dollars.) Based on these figures the rate of profit in 2019 stands at 7.3% (or $1,573 million net surplus divided by constant capital of $19,900 million + variable of $1,640 million). This is well below the rate of profit of 8.9% in 2015 which is last year found in Graph 15.

Graph 14.



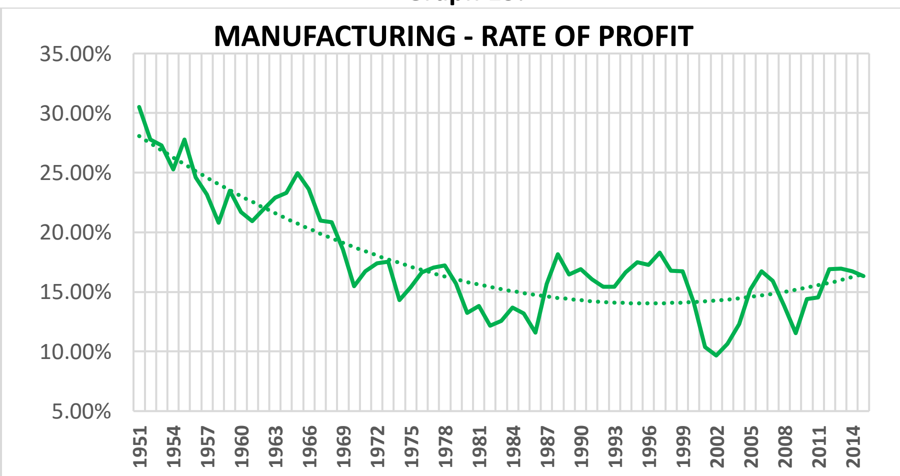
Marx uncovered this underlying tendency for the rate of profit to fall through his investigation into the rising composition of capital. As capitalism develops, so capitalists invest in relatively more means of production (constant capital) and relatively fewer workers. More constant capital means more capital over which to measure profits, fewer workers mean fewer workers to produce these profits. This is the law behind the tendential fall in the rate of profit, which Marx described as the most important law governing capitalist production. In its simplicity it amounts to this: workers produce profits, machines do not.

For Marx, the increase in the technical composition was the gravity tugging at the rate of profit. The rate of profit is like a glider in the midday sun. If it catches thermal updrafts strong enough to lift it, it soars ever higher, but as the day passes and the air cools eliminating thermal updrafts, it is forced down to earth by gravity. This describes the undulating path taken by the rate of profit as the factors that cause it to rise temporarily overcome the factor that causes it to fall.

It is not our intention in this online pamphlet to investigate the complexity behind the movement in the rate of profit. There are a number of articles on this site which analyse the rate of profit, both historically and current. Nor will we involve ourselves in rebutting the critics of this law except to say the voices of these critics are fuller when the business cycle is in an updraft and profitability is improving, and quieter when the business cycle sinks into the night and profits disappear.

Below we plot the actual graph tracking the rate of profit in the USA from 1951 to 2015 for the manufacturing sector in the USA. Since 2015 the rate of profit has fallen for six consecutive years by a total of 25% as Graph 14 above has shown.

Graph 15.



(Sources: fixed assets BEA Table 4.10, inventories Table 5.8.5A&B, value added Table 6.1 and employee compensation Table 6.2)

This graph shows the fall in the rate of profit since 1951. It reflects what Adam Smith, David Ricardo and Marx/Engels saw in their day as well. The graph is quite erratic as on the one side it is pulled down by the gravity generated by the technical composition of capital and on the other, pulled up by the countervailing forces which allows it temporary respite. To even out the peaks and troughs a trend line has been inserted. It shows that the smoothed rate of profit began to reverse in the early nineteen nighties because of globalisation. By outsourcing to countries like China, US manufacturing obtained cheaper inputs which were then worked up by US workers who had suffered wage cuts. This is the reason profits increased lifting its trend from the low point in the 1980s. However, it has not recovered to its earlier peaks and has resumed its fall since the end of 2014 when the current benefits of globalisation began to exhaust themselves.

In conclusion. In the long run, fewer workers mean fewer workers to produce profits. More capital means more capital over which to measure these profits. This sets limits on the growth in the rate of profit and ends up depressing it. Workers however need not be depressed. The tendency for the rate of profit to fall is merely a proxy for the rise in the productivity of labour. The interest of workers and capitalists do not coincide.

THE CAPITALIST RESPONSE TO CRISIS.

But you may ask, why does capitalism not simply collapse? Why does the rate of profit not fall year by year to zero, the point at which the flame of capitalism would be extinguished forever? How is the rate of profit able to fall, then to rise, then to fall, then to recover and so on for centuries?

Marx called the fall in the rate of profit a ‘tendency’. There was an underlying process, but that process could be interrupted by offsetting factors. He never said it was a simple process. It was his detractors who said that.

To increase the rate of profit two things must happen. Profits need to be increased and/or the amount of capital needs to be decreased. As the business cycle concludes and profitability declines, the attack on wages and conditions intensifies. Workers’ share of productivity gains are reversed. Now it is not a matter of raising living standards but of defending them from belligerent employers.

This is followed by falling investment, hence falling demand and a subsequent contraction in production. As a result, competition intensifies. Less efficient companies go bankrupt. Entire industries and regions are ravaged as if by war.

A qualitative change occurs. The cheapening of capital is replaced by its wholesale destruction. Entire towns in the early 1980s were blighted as the industries they depended on were culled. Glasgow in Scotland, the original world centre for shipbuilding, was gutted by the closure of ship building on the Clyde. This levelling of industry came later to be known as the emergence of “rust belts”, which described empty rusting buildings and factories where once millions of workers laboured to produce truckloads of useful products.

In addition, a part of the idle means of production which has not been destroyed is auctioned off to vulture capitalists at prices many times below their value. This combination of devaluation and destruction sharply reduces the value and amount of constant capital. As expected, the most intense destruction and devaluation takes place in the older, less efficient industries and companies. To this we may add countries as well. In sum the amount of capital on which the rate of profit is based is dramatically reduced.

On the side of profits, the number of workers in employment is reduced, thereby minimising the capital spent on wages. In turn, those employed are forced to work harder, for longer, for less. The growing army of the unemployed is used to intimidate those in work. And of course there is the accelerated export of capital to countries with lower wages. So, more profits are produced which are now measured over less capital, helping restore the rate of profit.

Of one thing we can be sure, the capitalist response to its crisis is barbaric and damaging. It not only results in blighted lives, but in the huge destruction of productive potential. It takes a recession to reveal the fact that capital and labour have opposing and irreconcilable interests. During periods of economic growth the class struggle takes the benign form of the struggle for a fair day’s pay. During recessions it takes the form of a struggle for survival by whole sections of the international working class. They are faced with mass unemployment, systemic factory closures, the destruction of whole communities, mass poverty, the removal of state help and more. The very fabric of society begins to rip.

And all the time workers are told to take responsibility and to bear their share of this sacrifice. This would make sense if workers were in any way responsible for the crisis. But the capitalist crisis is not due to high wages, nor to productivity falling. The fact of the matter is that the capitalist economic crisis is due not to failure, but to success. It is due to its success in accumulating capital which, from the point of view of profits and only from this point of view, now appears as an over-accumulation. From the viewpoint of the needs of humanity there is never an over-accumulation of the means of production.

There is only one capitalist solution to such an over-accumulation: part of this capital has to be destroyed. Capitalism now enters its destructive phase, or as it is euphemistically called, a period of creative destruction, where the old is destroyed to make way for the new. Following the Great Depression in the 1930s, it took the Second World War to set the world capitalist economy in motion once more under the hegemony of the United States.

However, in the eyes of the working class this insane destruction is an attack on our class. After all the destruction of capital is not a destruction of things, it is the destruction of our past unpaid labour and the source of our employment. It is a huge price for workers to pay, from which they derive no benefit.

Accumulation is the fuel that powers production and preserving it is the civilised thing to do. The destruction of the accumulated capital is never in the interest of workers. Workers can and must preserve what they have produced. Workers can and must defend their factories, their workplaces, and refuse to accept any closures or redundancies. They should also refuse to work harder for less. In doing so they would be expressing and defending their class interest. They would be acting as a class for itself. But in doing so they would form an obstacle to capitalism seeking a way out of its crisis. The crisis would deepen and threaten the system with ruin.

We can sum up. Profit rates begin to fall not because workers have become less productive but because they have been made more productive. The whole absurdity of capitalism, despite its glorious achievements, is laid bare. Here is a system whose very success is the cause of its recurring failures. And if the success of an economy causes it to fail, requiring destruction rather than production, then the solution is simple, do away with it. In its place erect an economy which is not based on profit, not limited by profit, one which is able to harness the rising productivity of labour without interruption.

It took ten to twelve thousand years before private property in the means of production gave rise to a fully developed market which unlocked its potential. Profitability which had driven capitalism to produce a world economy now holds it back, threatens destruction. If society is to be taken forward, its gains preserved, its humanity restored, we need to put an end to the rule of private property in the means of production.

We do not mince our words. Capitalism is a limited mode of production fraught with crises. It is society's first industrial society, but not its last. In its place we need to build a society based on collective property and free of exploitation - we mean a socialist society. And if we are to support this proposition, we must not shy away from investigating the first calamitous introduction of collective property in the Soviet Union. To those who say, "leave the USSR in peace," we say, "Without understanding why it failed, we will never be able to navigate our way in the future." The crash of 2008, which shook the economic system to its foundation leaving a legacy of stagnation, makes it more urgent, not less urgent, that we learn the lessons of the Soviet Union.

CHAPTER 2. WHY PLANNING HAD TO FAIL IN THE USSR.

Contrary to all the nonsense written about Marx and Engels, they seldom commented about the future socialist society. They left that vulgar task to the dreamers and utopians. Only in 1875, when he was forced to intervene, did Marx briefly outline his vision for the future. He did so in a pamphlet entitled "*Critique of the Gotha Programme*". Its purpose was to correct the numerous errors contained in the Gotha Programme intended to unite and politicise the German union movement at the time. In it he made a number of critically important points, all of which would find expression in the Russian Revolution that occurred nearly 50 years later.

Firstly he insisted that the working-class struggle, while beginning at home could only succeed as an international revolution, or not at all.

Secondly that a successful revolution would establish a workers' state, which in effect, would be the dictatorship of the proletariat. Such a state was essential to protect the revolution and to put an end to the legacy of capitalism. Furthermore this necessary dictatorship would be temporary, and it would wither in proportion to the withering of the class antagonisms inherited from the previous society. In other words a state can call itself a workers' state, only if it actually and systematically eliminates privilege.

Thirdly, that in contrast to all exploitative societies where margins are added to extract unpaid labour, in a socialist society they are replaced by deductions. Workers who now own the social product decide collectively and democratically how much to deduct from their product to pay for new investment, administration, insurance against natural disasters, for the sick, those unable to work and for education (amongst a much larger list). That this democratic agreement on deductions was the epitome of workers' democracy. To which we may add that any state which denies the workers' right to decide on the extent and content of these deductions, can no longer call itself a workers' state.

Thirdly that there were two stages in the path to communism, stages précised in his famous slogan, "from each according to his ability to each according to his needs". Marx recognised that in the first phase, individual workers' contribution to production would be unequal. This corresponded to an international working class emerging from capitalism that was and is divided by skills. Therefore what workers were able to withdraw from production would be unequal. From each according to his ability to each according to his ability defines this stage.

He recognised that this equal right depended on the level of economic development. As he put it “Right can never be higher than the economic structure of society and its cultural development conditioned thereby”. However at a later stage when productivity will be so developed, the working day so shortened and the realm of freedom so expanded, that the true social individual will step forward, freed of the meanness of spirit created by the divisive calculation of one’s share of social production. At that point society would inscribe on its banners “From each according to his ability to each according to his needs”. Finally humankind will have emerged from the realm of scarcity into a world where humankind is no longer divided by production but united by it, where social relations are no longer governed by material want but by human need. The Garden of Eden never lay behind us, it lies ahead of us.

We can only wonder at these days to come as we trudge to work for others, making them richer by making ourselves relatively poorer. Now let us turn our attention to the USSR, to the first workers’ seizure of state power and private property in the means of production. And of course, it’s tragic aftermath.

THE RUSSIAN REVOLUTION.

Russia proved to be the weak link in the chain of imperialism. More economically backward than any of the other major combatants in the First World War, it suffered the greatest hardship and loss of life. Rocked by revolution the Bolsheviks led the first successful workers’ insurrection in October of 1917 exactly one hundred years ago. This carefully planned and managed conquest of state power resulted in only a few hundred deaths, mainly in Moscow.

Lenin and Trotsky, like Marx and Engels before them, recognised that the Russian Revolution depended on making it international. They were right. Within a year Britain, the USA, France and Japan organised an international counter-revolution against the Bolsheviks. This White Terror claimed twenty million Russians lives whereas the October 1917 Revolution claimed only hundreds. Of course these massacres are hidden from history by the imperialists and their apologists in order to maintain the myth that it is revolutions rather than counter-revolutions that provoke mass murder and even genocide.

By 1921, the Red Army under Trotsky’s leadership had prevailed, but at a huge cost. Entire cities had been devastated. Millions of the most cultured and conscious members of the working class and the Bolshevik Party had been killed or maimed. The Bolshevik Party had literally lost its precious ballast making it probable that the party would capsize in a world where production had collapsed and where poverty enveloped everyone in its divisive embrace.

The corruption of the Bolshevik Party and the degeneration of the revolution was not due to Lenin's untimely death, nor due to Trotsky's legendary inability to engage in Party struggles timeously, nor was it due to the earlier banning of Party Factions. Had Lenin lived and Trotsky organised independently, they would have only slowed the Stalinisation of the party, not prevented it. The river of history would have continued raging around these two rocks.

Stalin triumphed because the determining factor was the prevailing material conditions, more specifically the isolating and grinding struggle for survival. The economic desert produced by the counter-revolution sucked the revolutionary life out of the party. Only an idealist could believe the Bolshevik Party would rise above these conditions rather than be dragged down by it, that its' internal life could exist apart from the life in the streets. It would succumb, it did succumb.

Where the imperialists did succeed in subsequent years, was to rewrite history and blame all the failures on the Bolshevik Party and planning. Just as no one would invite a rapist into our schools to lecture our young on sex education and etiquette, so we do not invite the imperialists and their experts to teach us about the evils of planning. The white terror they initiated and which economically raped Russia, was a key factor shaping future events in the USSR.

In sum, the Revolution, which had the disadvantage of occurring in a relatively backward capitalist empire, had been gutted. Its renaissance depended on a successful European revolution. The failure by the German workers in 1923 to seize state power represented the last chance to revive the Russian Revolution. The suppression of the German workers signalled the ebbing of the revolutionary wave that had broken out after the Great War.

Russia was isolated, exhausted, demoralised and impoverished. Into this political arena stepped Stalin as the personification of the bureaucratic core of the Bolshevik Party. He headed the tendency within the party who were no longer concerned with the broad interests of the working class, but of furthering their own personal interests. They were to capture the Bolshevik Party and transform it into a structure for raising themselves above the awful conditions that prevailed in the USSR, and they would do so by harnessing the new property relations.

THE NEW EXPLOITERS AND OPPRESSORS.

This new bureaucracy faced two threats. Externally from capitalism (imperialism) which sought to restore private property in the means of production and internally from the remnants of the workers' opposition. Stalin's "socialism in one country" was in effect a non-aggression pact with imperialism. In return for sabotaging or at least disorientating working class struggles around the world, Stalin expected the imperialists, primarily Britain and the USA, to respect the geographical independence of the USSR and the rule of the Party. It was an offer the imperialists could not refuse and from which they were to benefit enormously.

Internally Stalin dealt with the workers opposition led by Trotsky by forming an alliance with the Kulaks (rich peasants, rural traders and potential capitalists). He correctly identified the workers' opposition as his main enemy. When this opposition had been defeated and their leaders killed or exiled between 1924 and 1927, he turned on his Kulak allies and crushed them in turn. In that way he established the bureaucracy's monopoly of state power.

By the late 1920s, state terror ensured Stalin's rule was absolute and the Party unchallenged. The Party was now politically able to mobilise the productive forces through the introduction of planning. Just as the capitalist personifies the inner needs of capital so Stalin personified the needs of collective property. He had to introduce planning in order to engage the productive forces. However, as a despot, the plan would be imposed on society and society punished for any failures to implement it. This planning came to be known as the Five-Year Plans beginning in 1928.

The countryside was collectivised to extract the maximum agricultural surplus to pay for accelerating urbanisation. What followed was the most rapid (forced) industrialisation the world has ever seen which includes the present day. It transformed Russia from a largely agrarian society into a leading industrial power within a generation. Whereas Russia had to submit to Germany in the First World War, in the Second, Russian industry allowed its people to triumph over the Nazis and force Germany's submission.

The abolition of private property had made possible, for the first time in an industrial country, the unhindered mass mobilisation of society in a single orchestrated effort. Terror played only a secondary role. The victory of the Red Army in 1945 did not vindicate "socialism in one country". Quite the contrary it was "socialism in one country" that was responsible for the War in the first place through Stalin's malign intervention in the workers' struggles in Germany and Spain during the 1930s.

Nevertheless, the pre-war rapid industrialisation hinted at the potential lodged in the abolition of private property. Unfortunately, as we shall see, these gains would be undermined and finally negated by exploitation, or what is the same thing, the bureaucracy's parasitism.

The new exploiters headed by Stalin were called many things, a bureaucracy, a caste, an elite, a class, functionaries and so forth. We will continue to use the accepted term of a bureaucracy with this qualification: normally a bureaucracy is an agent serving another class and does not have an independent existence. Clearly in the Soviet Union the bureaucracy served itself rather than the working class. Being parasitic and therefore unnecessary, predictably it would end up collapsing the economy it had inherited.

What can be agreed on is that the bureaucracy was not a class. A class is defined by its legal relationship to the factors of production. In the case of the capitalists it is their private ownership of the means of production/distribution and the land. It is this private ownership which distributes the surplus of society in the form of rent, interest and profit into the individual pockets of the capitalist class in proportion to the size of their capital.

In fact this mode of exploitation is unique to capitalism. Contained within the exchange value of a commodity is its surplus value. So soon as the owner of the newly produced commodity is paid after the exchange, this surplus value is converted into surplus money and therefore profits. Exploitation is therefore direct and immediate.

The social power of the capitalist class therefore flows directly from its ownership of commodities, of capital, from private property. Their power derives only secondarily from political control. In capitalist societies, the purpose of political power is the enforcement of these property rights. Political power is a means to an end not a means in itself. Individual capitalists do not require a position in the state to give them access to the surplus of society only the security of private property. That is why the capitalist system can tolerate multi-party democracy provided the various parties respect their private property. Even the much-lauded Human Rights Act prohibits interference with private property (Article 1 of the First Protocol: Protection of Property).

Things stood differently in the USSR. Private property had been abolished. Bureaucrats could no longer rely on private property to gain access to the surplus of society. They had to rely on the state. Only their monopoly of state power could ensure they were able to share in this surplus. That is why all parties other than the Bolshevik Party had to be banned and political freedoms stifled. If the Bolshevik Party was voted out of power then its members would have to forfeit their privileged state positions and return to the ranks of the working class.

So only a single party, the Communist Party was allowed, for it was through the funnel of the Party that individuals gained access to state positions. The Party was responsible for recruiting, promoting, organising and disciplining this bureaucracy. The workers' state which is always and everywhere defined as a state that seeks to end privilege and property in production, had been crushed and superseded by a new form of state. Its new function was to increase privilege and to distribute it amongst the bureaucracy according to rank.

As long as the economy grew, these bureaucrats' hunger for the security of private property - for their own capital - was held in check. As soon as they ruined the planned economy on which their privileges rested, which occurred by the late 1980's, they predictably led the charge to restore capitalist private property. The rest is history.

WHAT IS THE ECONOMIC DYNAMIC OF A SOCIALIST SOCIETY?

The profit motive makes capitalism dynamic. We will now examine what motive replaces the profit motive in a socialist society. In doing so it will be revealed just how primitive profitability really was. In unearthing this motive, we will see once again why the USSR was unable to utilise this financial mechanism to expand its economy.

In our section on capitalism we recognised this mode of production to be indirectly social. Production divides society which is then re-united through exchange. Under this condition, the weighted average cost of production presents itself as the exchange value of the commodity.

In turn this exchange value is expressed by money and circulated by it. Price is the money name for the labour time crystallised in each and every commodity. We also learnt that unequal exchange, made possible by the intermediation of money, is the norm. Commodities tend to circulate at prices that are either above or below their actual costs of production.

The law of value boils down to this. In a market economy, prices are not directly linked to actual costs of production but are only indirectly linked via exchange. This means, prices can and do diverge from actual costs of production, due to the intermediation of money capital. There is thus an elastic relation between prices and actual costs of production.

Not so in a socialist society. Here the labour of the individual becomes part of the labour of society immediately and directly. Production is now intended for use not exchange. Therefore, for the first time, it will be possible to establish an objective pricing system. Prices will no longer diverge from actual costs of production.

Of course, it will take time to construct an objective pricing system because the prices we inherit from capitalism will be all over the place. In "capital intensive" industries they will stand higher than costs and in "labour intensive" industries they will stand lower. By degrees these differences will be ironed out, but there is nothing intrinsic standing in the way of preparing objective prices – the ultimate "price discovery".

This includes money. Money has now been transformed. It is reduced to a mere receipt for labour. It no longer intercedes between production and consumption. By registering the contribution each worker makes to production it allows that worker to withdraw from society's store of stocks, products that cost the same amount of labour to produce.

Money under socialism has no role other than to register the contribution each worker makes to production. It can take two forms. Single use or multi-use. Single use money would be a receipt issued to a specific worker each time labour is contributed. It could be issued on a weekly basis for example. It is then used to withdraw products from society's store of products. Once the price of these products equals the amount of labour registered, the receipt is spent and discarded. It has to be reissued over and over again. The modern version would be individual data bases into which every contribution of labour is added and from which the price of every product withdrawn is deducted.

However, because it will take time to set up these databases, and because of initial concerns over security, it may be advisable to use multi-use money. These will be the difficult to forge notes and coins we are familiar with. They will be similar to today's currency minus the faces of the butchers that currently adorn them. There are other reasons to retain currency in the short term because we cannot change everything at once, and because there will be legacies inherited from capitalism that will require money to intermediate. However, over time the need for multi-use money will fade, and as it is costly to maintain, society may decide to go cashless.

In a socialist society, and here we refer to the early transitional stage, for the first time, price is indissolubly tied to actual costs of production. As a result, the cheapening of production through the reduction in labour times results in falling prices. The fall in prices will accurately and immediately track the fall in the weighted average labour times needed to produce them.

It is falling prices that replaces the profit motive under socialism. Falling prices benefits all members of society equally. It becomes the economic knot which binds society together, for it rewards the common effort equitably. In doing so it maintains the unity of effort by preventing sectional or competing demands from arising.

Price falls rewards effort. As prices fall, it means consumption will increase. If we were to assume a 4% fall in general prices, but no fall in labour income because the total number of hours worked remains unchanged, then workers' standards of living will go up 4% for everyone. It won't be the case that one group of workers will enjoy a 6% improvement and another group 2%, it means everyone enjoys the same improvement. And it is this equality that prepares the ground for harmonious and efficient productive collaboration.

It is investment in new techniques of production that is the real driver of productivity and with it, the fall in labour times. However, no worker should benefit individually from the rise in productivity resulting from investment in their particular workplace. Why should they? Why should they have a bigger claim than the workers who designed the new equipment, or the workers who built it. Instead they all should benefit equally. How? Through the pricing mechanism, not changes to their wages. Let us say this equipment is designed to produce shirts. If the price of shirts falls 20% because of the widespread application of this new equipment, then the workers who designed the equipment, the workers who built it and the workers who use it all benefit equally from the lower price of shirts.

However, there are Marxists who have never considered how falling prices could motivate a socialist society. They remain limited by bourgeois ideology. Instead they consider that higher wages should be used instead of falling prices to reward workers for improvements to their production.

As we well know, the biggest contributor to productivity is investment, not more intense work. Accordingly, let us return to our example of the new shirt producing equipment. The workers who use this new machinery will see their productivity go up. What would happen if they demanded wage rises because of this. "See they will say. We produce more shirts so we demand more wages." But what about the workers who produced this new piece of equipment. Can they not argue that some of these higher wages should come to them because they built the machine without which the productivity of the shirt producers would not have risen? Or what about the workers who designed the machine. Are they not entitled to say; "we want most of the wage rises because it is us who designed the piece of equipment in the first place and without us no new equipment".

Planning would be drowned by claim and counter-claim for higher wages. The facts are these. The rising productivity of labour brought about by new investment, while increasing output, does not increase the total labour time expended in producing this output. It therefore follows that this change in output is not reflected by a change in wages but in prices. And it is through falling prices that each socialist producer benefits equally. The workers who designed or produced or used the equipment benefit equally and without favour. The reward of lower prices avoids claim and counter claim, it avoids sectionalism in all its forms.

It is worth labouring this point so to speak. Every worker will have an incentive to ensure that their output is of the highest standard and carried out in the minimum time. Otherwise workers further down the line will have to waste time undoing any mistakes. What is saved in labour time in one moment by cutting corners will be lost at another through additional repairs. The net result will be no fall in labour times, therefore no fall in prices because of this waste of labour. Hence the pricing mechanism creates a global consciousness which is the essence of collective production.

There is a second consideration why planning is incompatible with "wage rises". Here we are using the term, wages, to represent labour income under socialism. However, the term wages is no longer associated with its capitalist content where it refers to part payment for the labour expended. Accordingly, total wages is used to represent payment for total labour time.

It therefore follows that wages can only rise if total labour increases. Total labour can increase if the producers work longer hours or the number of producers increase. More subtly, it can increase if skill levels improve throughout the economy. However, the total labour time of society does not necessarily increase simply because productivity does.

If wages go up under this condition, it means the receipts for the expenditure of labour will exceed the actual expenditure of labour throughout the economy. These receipts will no longer match the prices of the goods produced. There will be excess receipts, excess money. It follows that if we both raise wages and still enjoy falling prices, some of the "wages" of the working class will remain unspent because total "wages" net of deductions will exceed total prices.

If this were to happen, prices of particular items will be bid up by excess wages and the result will be confusion together with the emergence of a market driven by excess money. Prices and labour times will diverge. Prices will come to reflect the push and pull of demand and supply rather than being tied directly to costs of production. It would mark the end of conscious planning which depends on an objective pricing mechanism.

Wages, if we are still using this term, represents the income of every member of society net of deductions for investment, insurance, health, education, care of the elderly and the infirm, environmental repair etc. They will represent a definite portion of the total product, the portion destined for individual consumption. Net wages will equal the total labour time expended in this sphere of production.

Wages can increase if workers decide to work longer hours just as they will fall if workers decide to work fewer hours. However, this alteration in hours is less important than changes to productivity. Workers will be enriched, not by longer and harder work, but by producing more products within a given time span. This requires investment in new techniques, in new and improved equipment and computers. These dwarf the difference in the strength and stamina that separates one worker from the other. Machinery, equipment and power tools are the great levellers voiding any difference in muscle power. For example, an American farmer driving a Combine Harvester picks and mills more grain in one hour that 9 Afghan mule herders can achieve in one month. So, for every minute of extra work by the US farmer, each Afghan worker would have to work an additional 10 hours, though to be sure the average Afghan herder is stronger and fitter than his US counterpart.

Not only will this fall in prices reward efficiency, it will enable us to measure the efficiency of any investment. Just as an increase in the amount of profits was a measure of efficiency under capitalism, so now the predicted fall in prices allows us to measure the advantages of any investment. It allows us to choose the most cost effective investment through its effect on the totality of prices. This transparency has another advantage, it enables conscious planning. Prices need to be tied to actual costs in order to allow for the efficient allocation of the labour time of society to satisfy its needs and wants. In this way, the rate of profit has been superseded by a more direct and accurate measure.

There is thus a lot more to pricing than meets the eye. The pricing system we inherit from capitalism is severally distorted. Individual market prices of production bear very little relation to average values. The averaging out of the rate of profit, demand and supply, to name but two, results in huge deviations between individual prices and costs. The simple fact is this. Under capitalism we have no idea what individual products actually cost to produce.

The capitalists may boast that price discovery is real under capitalism. That only at the intersection of demand and supply, can prices emerge that direct investment.

Emancipated workers would take a different view. Under capitalism, the prices that govern, what Marx called the *market prices of production*, are those prices that redistribute profits between the owners of capital. This is at it should in an economy where the capitalists need to share out the unpaid labour of the working class in proportion to their investments.

This price discovery however is meaningless to emancipated workers who no longer produce unpaid labour and want their labour costed accurately. This is the price discovery of socialism, objective prices, rather than the disturbed prices of capitalism. The pricing system of socialism is immeasurably higher than that of capitalism, for here for the first time, the cost of labour to the worker is accurately reflected in the price of the products resulting from this labour.

FROM EACH ACCORDING TO THEIR SKILL.

The reward for co-operative labour stands on two legs. The first is the reward for <u>collective</u> effort through falling prices. The second is the reward for <u>individual</u> effort, it is the right to receive back from production in proportion to one's own contribution. This is clearly an equal right. But equal rights are only needed under conditions of inequality.

One of the primary inequalities inherited from capitalism is the division between mental and physical labour, or expressed by degree, the division between skilled, semi-skilled and unskilled labour. In order to cut costs, capitalism examines the production process in order to break it up into the most basic steps. These basic steps can then be carried out by unskilled labour which is the cheapest form of paid labour available to capitalism. This allows the capitalist class to minimise the amount of skilled labour needed to keep this production process going.

The result is that today, on a world scale, the vast majority of workers are unskilled or find themselves trapped in unskilled work, while only a minority occupy the more skilled layers of work. The unfortunate consequence of this hierarchy of skills is that workers do not contribute equal amounts of labour within the same time to production. More skilled workers contribute more to production and less skilled workers contribute less.

It can be argued of course that a worker who collects the rubbish is producing more useful work than a designer of computers, because when the rubbish collectors stop working, disease soon follows. This is true. But the difference is this. To train rubbish collectors requires a minimum of society's time. The opposite is the case with experienced designers of computers who take years of study and training. It is also true that without the computer designer, a modern economy could not flourish, nor would driverless garbage trucks emerge freeing drivers from smelly cabs and early mornings.

It is generally intellectuals who balk at the proposition that workers' contribution to production differ. Workers engaged in production recognise the limits of their contribution. Accordingly, we recognise that workers who contribute differentially to production should receive back differentially from production.

If we had to enforce the same average wage on everyone, this would be an unequal right. It would mean that more skilled workers would receive less than their contribution while less skilled workers would receive more. Under this condition there could not be a voluntary association between workers of different skills.

Instead an authoritarian state would be needed to enforce this inequality. In the USSR, there was the enforcement of an unequal right, only this time in favour of the skilled workers. The backwardness of the economy meant an acute skill shortage to begin with. Indeed, such was the shortage, that many skilled workers and officials felt themselves to be above the working class. They had to be placated by higher wages to ensure their loyalty.

In a democratic socialist society on the other hand, equal right will prevail, without which there can be no free association of producers. Here the difference in skill will be treated as a co-efficient of labour. Higher skilled workers will have a higher co-efficient and lower skilled will have a lower co-efficient. Each workers' contribution to production will thus be the hours they work adjusted by their coefficient of labour.

The total expenditure of labour throughout the world economy in turn will be the total number of hours worked multiplied or divided by the various coefficients. This will yield universal labour time, which when divided by the total hours worked will yield the average hourly labour. This will be a simple average not a weighted average. This average will then form the measure for the expenditure of labour and at the same time it will be the basis for price. It will make all labour commensurate regardless of whether this labour is performed in an industry where skill levels are higher resulting in higher coefficients compared to another industry where they are lower.

We may refer to this average in the language of money as the UNILAT (an acronym for Universal Labour Time). On the one side, the production side, each workers' contribution will be priced in terms of this UNILAT adjusted for their coefficient. If their coefficient is below average, then they will be paid with fewer UNILATs, and if it is above the average they will be paid with more UNILATS. These UNILATS will then form the cost of every product and hence its price.

The total UNILATs in their receipt form will thus equal the total prices of the products produced. The production and consumption side will balance. Once the UNILATs have been spent on withdrawing products from society's store of products, there will be no UNILATs left nor will there be products unclaimed.

Having examined what will take place in an actual socialist society run by workers in their own interest, we can now turn to the USSR to uncover why it could not adopt an objective pricing system nor pay workers in proportion to their contribution, and why therefore it had to fail.

INFLATION IN THE USSR.

In the USSR, the pricing system as we shall see was not designed to reward workers for their labour. Rather the pricing system was designed to separate workers from their labour to finance the privileges of the bureaucracy. Instead of deflation there would be inflation. A system of phantom prices emerged designed to balance the plan which was based on material balances.

The financing of the first Five Year Plan took two forms. In a largely agrarian society it would require the extraction of the maximum agricultural surplus to feed the newly emergent and growing industrial towns. This was the imperative that drove collectivisation and all its cruel consequences.

The second was inflation. Workers were to be impoverished through rapidly rising prices. Inflation would be the mechanism for increasing the rate of exploitation of the labouring masses. In this manner, the surplus of society would find its way into the hands and pockets of the newly triumphant bureaucracy. (Note 1.)

For this to happen the Rouble, the official currency of the USSR would need to be debauched. *In the Revolution Betrayed*, Trotsky details this debauching of the Rouble. Between 1925 and 1927 the volume of currency went up 35% p.a. from 0.7 to 1.7bn. Between 1928 and 1933 it went up by 79% pa from 1.7bn to 8.4bn. Compared to the French Franc the Rouble fell 77% in value between the same years. This inflation represented, in the words of Trotsky a dreadful tax on upon the toiling masses.

The bureaucracy had no choice but use an unstable currency, for without it, there could be no false accounting. It was this false accounting that allowed the bureaucrats to hide their parasitism. They could no more introduce an honest rouble as a priest could admit there was no god only myth. Criticising inflation became a punishable criminal offence under Stalin.

Trotsky called this debauching of the rouble: "*the syphilis of planned economy*". It had two consequences. First and foremost, it destroyed the link between effort and result. Workers found, that no matter what effort they put in, they were punished by rising prices. This together with heavy handed management, draconian labour laws, extremely long and harsh working conditions, robbed the worker of any attachment to the labour process.

In the words of Trotsky, "all correspondence between individual labour and individual wages necessarily disappeared, and therewith disappeared the personal interestedness of the worker." Over the decades, as the working class grew in size and strength, the heavy hand of the bureaucracy was pushed back. However, workers were never to re-engage with the labour process. In their words; "they pretended to pay us and we pretended to work". As long as workers pretended to work there could be no antidote to bureaucratic inertia, no prop for the ailing economy, making inevitable its collapse in the 1980s

Secondly, inflation and false accounting also robbed the bureaucracy of any insight into what was happening in the economy. In the absence of sound finances, planning became largely statistical. Targets were set mechanically. So many tons of steel, so many metres of cloth, so many litres of oil. The timid targets set in 1928 soon gave way to extravagant targets. Success depended on achieving or exceeding the norms. Production became a storm and the plan became tauter and tauter.

As long as there was a pool of excess labour these targets could be met and even exceeded. Plants could be worked for longer. There were more workers to repair overworked machinery and even substitute for them. Duplicating a plant was no problem as long as it could be manned by new workers. This requirement for labour led to the phenomena of individual enterprises hoarding workers and tying them to the plant through ration cards, housing, health and amenities. It also led to the huge influx of women workers when the supply of male workers began to dry up.

As long as the pool of labour was not exhausted production could increase quantitatively. When it was exhausted the only alternative to meeting targets was to begin cutting corners. And so the quality of production began to suffer. Another ruse, under the pressure to meet the plan, was to simplify production. Take steel nails. If the target was set as a weight of nails, it was easier to meet that target if you only produced one size of nail, the bigger the better. If the target was a set number instead of weight, better to produce smaller nails rather than larger nails which are quicker to produce. So targets were met but at huge cost to an economy that lacked nails or screws of the right size.

Of course, Stalin was aware of these shortcomings. He tried to overcome them with his 6-point programme in 1931. None of these addressed the contradictions; namely that without honest accounting, without real prices, you cannot generate a culture of efficiency. Only real prices reveal the extent and consequence of cutting corners, the ruining of machines and the misusing of materials. It does not matter how much Stalin bemoaned the "lack of personal responsibility" or incompetent managers, or how much he blamed the wage structure, or how much he pointed the finger at wreckers, or labour indiscipline, the fact is that all these effects resulted from only one cause, the presence of the bureaucracy and its need to hide its parasitism.

In the drive to increase physical output, financial planning had to give way to statistical planning, despite Stalin's repeated lectures on the need for sound finances. The crude fact is that financial planning is often incompatible with statistical planning (material balances). Often it costs more to complete the plan than not to complete it. If meeting the plan requires adding in extra workers, if it means no time to clean and repair machines, if it means using more expensive raw materials when no other is available, it adds to the cost of production. The last ten per cent of output often costs many times more than the first ten per cent of output but this was ignored in the drive to meet the targets on which the taut plan was based. Indeed, to refuse to produce the last ten per cent of output not only deprived other enterprises of their inputs, it also invited accusations of sabotage. The whole system was deranged by **quantitative planning.**

This lack of economy became endemic. Throughout the history of the Soviet Union, and despite the price revisions, prices remained subjective. Prices were manipulated to regulate the rate of exploitation and consumption. They were biased towards heavy industry and they favoured strategic areas of the economy. They were a planning tool rather than a reflection of real costs. Planning remained based on material balances and prices tailed this process. The only consistency amongst this inconsistency was the planned prices always underpaid workers for their labour time.

While products moved forward from extraction, to production, to wholesale and finally retail, the rouble flowed backwards to replenish the wage and benefit fund, directed by prices that were planned and which had only one purpose – to underpay workers for their labour. The wage fund always covered only a part of the working day. However, because this was done so arbitrarily, it is difficult to know exactly how much of the working day was paid by the wage fund and which part was stolen by the various margins levied on production.

So regardless of cost, enterprises had to meet their targets. They could not refuse to accept the inputs from other enterprises even if they were of inferior quality. Much of their time was spent trying to unpick defects. In this way labour time was squandered often increasing costs.

It was not the centralisation of planning that lay at the heart of this rise in the cost of production, it was quantitative planning, the absence of an authentic pricing system to guide these decisions. It was not the inability of GosPlan to match inputs and outputs, which they were good at, which was to ultimately wreck the economy, it was the failure to economise on labour time.

The use of material targets became a fetter as the pool of labour dried up, as production became increasingly sophisticated, as the technical requirements became more demanding, so this statistical approach to planning became increasingly obsolete. It held back production and ultimately undid it.

(Note 1. There was a second aspect to inflation. No comprehensive audit of industry in the USSR had been completed by 1928. Therefore, knowledge of capacity and proportions were not known. The first study only came out in 1932 entitled "*Materials for a Balance of the Soviet National Economy 1928-1930.* Only 500 copies were published and circulation limited. Stalin did not want to be embarrassed by the fact that he had gone blind into planning in 1928. Because the planning bodies had no estimate of the size of the sector producing consumer goods (what Marx termed Department 2a) it turned out to be too small to provide the goods needed by the growing army of workers. Their wages helped drive up the prices of these scarce products and helped feed inflation.)

THE PRESENCE OF MARGINS.

In his Critique of the Gotha Programme, Marx addressed the question of margins. All exploitative societies use margins to rob workers of their unpaid labour. Under capitalism where workers are paid for their capacity to work, not for their labour, surplus labour provides a profit margin. As a result, the short hand expression of the capitalist cost structure is: cost price plus profit margin. The cost price here represents all the cash the capitalist disburses to set production in motion which includes wages, raw and processed materials, power, depreciation etc.

In the USSR the short-hand expression was different: the wages and benefit fund plus tax margin and later tax and profit margin. We will refer to this as base price plus tax and profit margin This differed from the capitalist cost price because enterprises did not pay for non-labour inputs like materials, power, semi-processed products and depreciation which were provided free by the state bank in the form of specific credits. Just as in a capitalist economy, the presence of margins in the USSR was omnipresent and they were made possible because part of the labour produced went unpaid.

Marx recognised that ending exploitation necessarily ended margins. Now it was the case that the working class owned the social product. He also recognised, unlike Lassalle, that workers could not individually consume all the “fruits of their labour”. Why? Because some had to be set aside to help those unable to work, for the young and the old, for administration, insurance (including global warming) new investment and so on.

To pay for this, workers had to “voluntarily donate” a democratically agreed percentage of their labour. There would thus be a deduction from their gross labour income. Now mark this, here we are talking of a deduction not the addition of a margin. This is because the workers now own the social product which results from their co-operative labour. Their labour so to speak is now fully paid.

It is the workers who then decide collectively to set some of it aside for the reasons outlined above. So what appears at first sight to be merely a formal difference, deductions versus additions, really expresses different class relations and differences to who owns society’s economic product.

The right to collectively decide on the size and content of the deductions from the social product is the epitome of working-class democracy and the hallmark of socialism. It is this inclusive discussion, free of coercion, favouritism and elitism, with the purpose of achieving a collective agreement, that is at the heart of working-class democracy, the democracy of the producers. Only workers have the right to decide, for they alone are its producers. The democratic supervision of these deductions prevents them from being misdirected and becoming a new surplus in the hands of an emerging bureaucracy.

Contrast this to the USSR. Here the workers did not own the social product. The state owned the social product - it was state property - and that state represented the bureaucracy. Indeed, it was a severely punishable crime to steal state property unless you were an entitled bureaucrat. In common with all other exploiters the bureaucracy underpaid workers and levied margins. These margins were then used to regulate the rate of exploitation of workers. If the state budget needed to be expanded, it led to increased margins.

The side effect of margins in the USSR was to further undermine planning. The reasons for this are not immediately obvious. Firstly, there is no starting point. The bureaucracy did not cost the social product. Therefore, when they decided to underpay workers for this social product, they had no starting point. They were deducting an unknown quantity from a larger unknown quantity (the social product). The wage fund was set arbitrarily in order to fix the level of consumption of the working class.

Hence how much workers were underpaid was an unknown amount. Accordingly, when the bureaucracy added back this unpaid labour in the form of tax and profit margins, they were not accurately adding back what they had subtracted behind the back of their workers in the first place. Their margins were once again arbitrary designed to finance state spending and the luxury consumption of the top brass of the bureaucracy.

This is what is meant by planned prices. They were fictitious, a bureaucratic device to reconcile the needs of the workers with the bureaucracy. It was not prices that informed and regulated the plan, it was the plan that informed prices. Hence the method of underpaying workers (the wage fund) and the method of funding the bureaucracy and its state (margins) was an error added to an error, or an error compounded.

The best book which describes the pricing labyrinth in the USSR is William Jeffries *Measuring National Income in the Centrally Planned Economies.* In this book, he describes the efforts mounted by the West, totalling Billions of Dollars, and involving some of their best economists, to decipher costs and prices in the USSR. They failed. This was not surprising for pricing in the USSR was murky and these economists were using measures that were themselves faulty because they were based on capitalist accounting methods.

IT WAS PLANNING BASED ON PIECE RATES.

It is not being rude to describe planning in the USSR as “command planning based on piece rates” rather than its official title “material-balances” planning. Piece rates means production based on the units produced. It could be so many shirts, so many shoes, so many kilos of steel, or litres of oil etc. Enterprises (plants) were set a target based on numbers. Their physical output then became the input for other enterprises. Its official title was material balance planning.

When preparing the new plan, enterprise managers would be asked to prepare output figures. They would understate how much their plant could produce because lower targets were easier to hit and success was based on meeting targets. The planning bodies, when evaluating these figures, understood them to be understated. They then increased them without knowing exactly what the capacity of the plant actually was. These estimates were thus subjective not objective, it was a charade that made planning clumsy and wasteful.

Workers of course, did not have the luxury of understating their capacities, because the plant management sat on top of them monitoring their activities. They were told to produce a fixed amount of goods, and punished if they failed to do so. Workers of course were reluctant to overachieve even if there was a reward for this, as this would simply result in higher targets next time round.

Under capitalism, piece rates are resented and fought against. One of the earliest struggles of the trade union movement in the 19th Century was to abolish piece rates in favour of being paid for the hours worked. By being paid for the hours worked, workers knew they had a fixed income every day, whereas with piece rates the bosses could withhold payment if workers produced fewer pieces. Often the failure to produce enough pieces was due to circumstances that had nothing to do with workers, but it was the workers who were penalised for this through the system of piece rates.

It was predictable that Stalin would copy the worst practises under capitalism. He championed the introduction of piece rate payments, whose most grotesque form was the Stakhanovism movement. Alexey Grigoryevich Stakhanov was a miner who was upheld by the party as a hero of labour because he allegedly produced 14 times his quota in 1935. Every other worker was called upon to emulate this hero of labour.

It was a fabrication. To achieve this amount of coal he had the assistance of other miners and above average amounts of equipment. The movement was soon abandoned because it made a bad situation worse. Piece rates and the wages tied to it, always gives rise to sectionalism. Workers first concern is to achieve their individual target without regard to any consequences. If quality suffers in the process so what. If targets can only be achieved by cutting corners so what. If machines are destroyed in order to achieve targets because there is no time to clean or repair them, so what.

The Stakhanovism movement had to be abandoned because all these issues were aggravated by marshalling workers to produce more. It led to more serious issues with quality and to more machines being destroyed. In short, when it was recognised that the cost of this extra output outweighed the extra output, it was quietly dropped.

Fundamentally, piece rate production undermines workers' association with each other and with their product. It puts individual wages before the need to reduce the overall cost of production to society. It is the polar opposite of a reward system based on objective prices which reflects intelligent co-operative labour.

Trotsky is to be criticised in supporting their role in planned production. They are coercive and have no place in a socialist society. Socialism calls for better work not harder work, collective effort not individual effort. It is true to say that the early Bolshevik Party, while it recognised the need for accurate prices, never understood how falling prices served to harmonise collective labour and therefore they were never able to present it as the central dynamic of a socialist economy.

WHY PROFITS ARE COUNTER-PRODUCTIVE IN THE ABSENCE OF EXCHANGE.

We have seen that at every level the USSR after 1924 contradicted everything Marx had proposed in his Critique of the Gotha Programme. The revolution was consumed by nationalism, the workers state was no longer the dictatorship of the proletariat, privilege had taken over from 'each according to his ability' and after 1928 planned prices robbed workers of their labour.

Our methodological approach to the collapse of planning is scientific. We reject the unscientific hypothesis that planning failed because it lacked this and that. A scientific approach analyses not what is absent but what is present. It seeks to analyse the actual forces, laws and contradictions that led to the collapse of this mode of production.

Based on this methodology we can surmise that the Soviet Union did not collapse because of the absence of workers' democracy. Capitalism isn't exactly democratic at the level of the workplace. Planning did not collapse because the sectional interests of individual bureaucrats made it impossible to plan. Within large corporations, heads of departments also manipulate their figures to flatter themselves and protect their department. Planning did not collapse because there was no reserve army of labour to discipline workers. Draconian labour codes replaced this discipline. Planning did not collapse because workers were the victims of the plan rather than its architect. Under capitalism workers rarely sit at the table of the Board of Directors. The planned economy did not collapse because of waste. Capitalism is extremely wasteful as well, we need think no further than duplication, patents, marketing, advertising, packaging, over investment, accounting, speculation, finance, corruption, recessions and more.

All the above is true, but it does not describe what really took place and why the bureaucracy never found a mechanism by which to systematically raise productivity and manage waste. Why in a word, it was unable to economise on the expenditure of labour time at least equal to the capitalists and their system.

Capitalism was and remains qualitative production, or what is the same thing, decisions are primarily driven by financial considerations. It has never been nor ever will be based on quantitative production. Capitalism does not produce for the sake of producing (except at the end of booms when the momentum of production carries it forward). It produces in order to make profits and when it cannot make profits, it stops producing, even if this means closing numerous factories in the process.

It is not true to say Stalin never sought to introduce financial regulation to a plan based on material balances or what is the same thing, the balancing of piece rate output between production units. He was aware that the war had highlighted the inefficiencies and waste produced by this most simplistic form of planning. Between 1946 and 1949 a serious effort was made to introduce financial planning. However, because it predictably disrupted the 4th Five Year Plan which in turn delayed the 5th Five Year Plan it was abandoned. Stalin thanked the architect of this financial effort, Kaznesensky, as he always did, by executing him in 1949.

Financial planning was bound to disrupt an economy where costs were absent. As soon as planning decisions had to be based, not simply on the possibility of producing something, but on whether it was economic to produce in the first place, a conflict of interest arose. If production in a sphere was uneconomic and therefore should be halted, it produced a ripple effect throughout the economy. One plant's output was after all another plant's connected input. If output was stopped the balances began to unravel. For example, if it was shown that 20% of electricity production was uneconomic, closing down these power plants would lead to a shortage of electricity, leading to other plants which depended on this electricity, being forced to shut down as well.

An analogy will suffice. Imagine a car driving as fast as possible which suffers a puncture. Instead of slowing down, then stopping to repair the puncture, the car continues to be driven hard. The result is a shredded tire, a damaged rim and potential damage to the rest of the car. In effect, had the tyre been repaired, then in the long run the car could have been driven further.

In the USSR the plan was taut. There were no reserves allowing enterprises the opportunity to change the way they produced things. Time out, was seen to be disruptive. The integrity of the plan was based on a guarantee of inputs. Quantity had to trump quality, and so financial planning was set aside in the stampede by enterprises to obtain inputs regardless of cost.

The bureaucracy would never return to financial planning. Instead they would do what a good bureaucrat always does, choose the wrong solution. After Stalin's death, the bureaucracy would ape the profit motive to try and stimulate its sagging economy. But as we shall see, the profit motive did not improve the economy but hastened its demise.

In 1961, at the 22nd Congress of the Communist Party of the Soviet Union, Nikita Khrushchev declared: “We must elevate the importance of profit and profitability”. This was amplified by his successor Brezhnev in 1966 by which time enterprises could retain more of the profits they produced. Cost accounting was changed to emphasise the importance of making profits at an enterprise level. The 1965 -7 reforms would either make or break the USSR.

In the original Five-Year Plans, the main lever for extracting unpaid labour was tax, particularly the turnover tax. At first profit margins were insignificant. However, after Khrushchev, profit margins became significant. The difference between a tax margin and a profit margin boils down to this, whereas a tax margin diverts unpaid labour solely to the state, a profit margin is shared out between the managers of enterprises and the state. In time the profit margin came to dominate. In 1940 turnover tax in the USSR represented 58.8% of state income and tax on profits only 12.2%. By 1971 the tax on profits rose to 34.1% eclipsing the 33.8% yielded by the turnover tax. (http://encyclopedia2.thefreedictionary.com/State+Budget).

Many Marxists misunderstood the role of profits in the USSR especially as it grew in importance. Many like Chris Harman in his debates with Ernest Mandel ascribed a falling rate of profit to the USSR, as though it was a capitalist economy and whose fall he anticipated would ultimately lead to the collapse of the USSR. In doing so the state capitalists showed that they did not understand the nature of profits nor less the nature of the economy in the USSR. Profits would become counter-productive in the USSR but for reasons completely unconnected to the debate between Harman and Mandel.

We saw earlier in Chapter 1, in the section on unequal exchange that profits depend on exchange and in particular on unequal exchange which redistributes surplus value. Stalin’s successors clearly did not understand Marx. Otherwise they would not have desperately turned to the profit motive to try and rescue their ailing economy in the post war period.

However, in the absence of exchange the profit motive actually becomes counter-productive. Instead of reducing labour time it ends up increasing it. This startling observation is easily demonstrable. Actually, the mechanism in the USSR was clearer to see than in a capitalist economy, which makes it difficult to understand why it has taken so long to reveal itself.

Marx's core method of investigation can be summarised as describing the process whereby the labour of the individual becomes part of the labour of society and the manner in which this labour is appropriated. In the USSR production was no longer for exchange, for the market. Instead it was production for consumption. The outputs of one plant immediately became the inputs for another plant as directed by the plan.

Accordingly, the mode of production found in the USSR was one in which the labour of the individual became part of the labour of society **directly and immediately**. It was a socialised economy. It was not a capitalist economy nor was it a socialist economy because the latter requires the absence of exploitation. The USSR proved on examination to be a unique mode of production far removed from socialism. This is proven by its economic processes and decisively by its collapse. Ultimately it was the contradiction between the socialisation of labour and its exploitation that would collapse the economy of the USSR.

To understand the problem with profits, we begin in 1967 when 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. Planners were acting as they had been instructed to do by the new cost-based directives. 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.

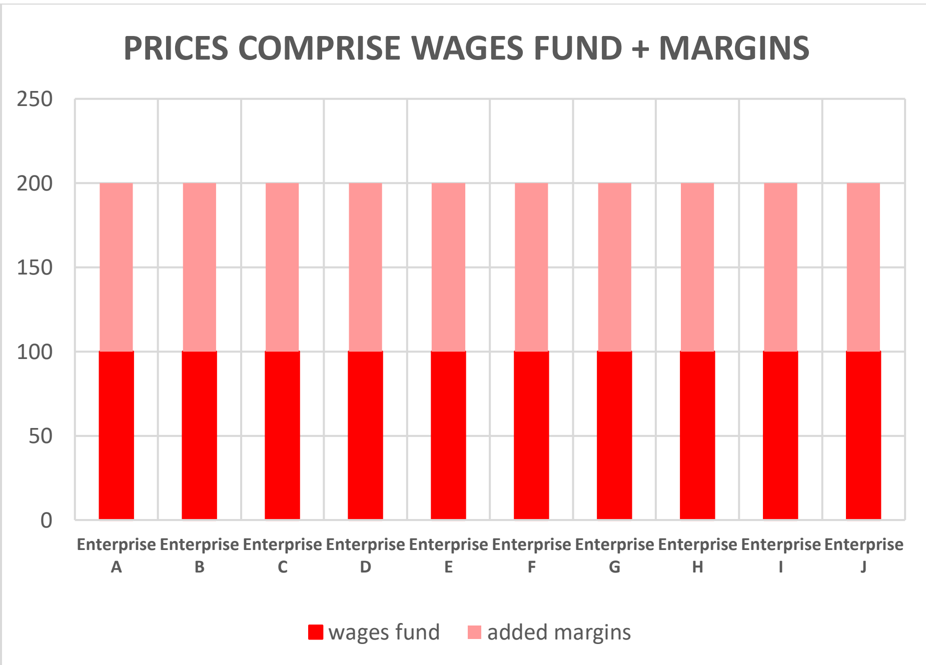
This phenomenon can be described once again by means of graphs. The reader should note this is looking at the matter in the USSR in the abstract, but nonetheless, beneath the surface this is what began to happen following the 1965 and 67 reforms when costs and profits were prioritised.

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.)

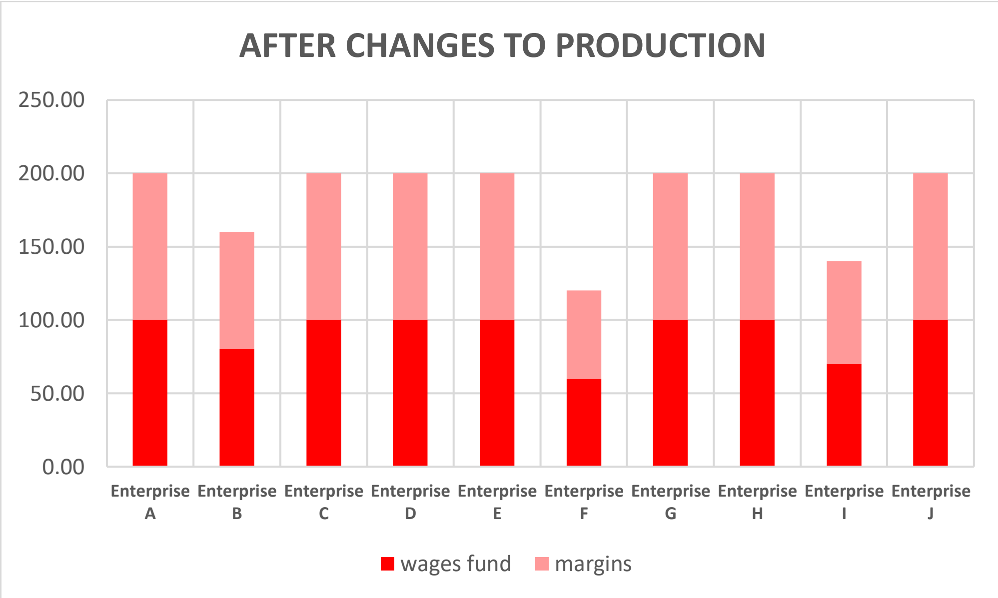
The main take-away here is the recognition that the presence of margins makes it impossible to measure workers' contribution to production, because by distorting prices, margins form a wall between workers and their product.

Graph 16.



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.

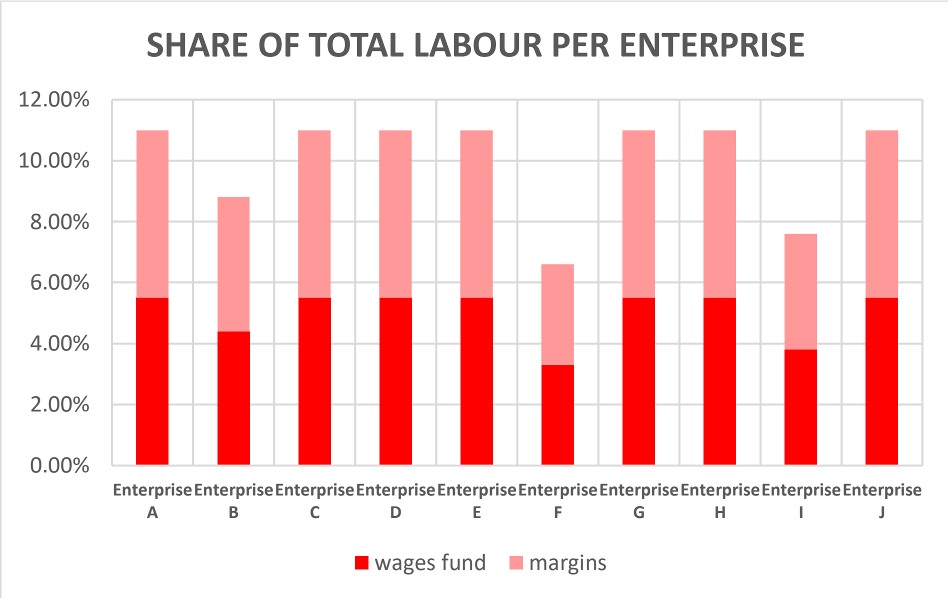
Graph 17.



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 and income.

But labour time is pesky, it hates to be ignored. And to understand why, examine the Graph 18 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 labour time of society fall from 10% to 8.8% (B), 6.6% (F) and 7.6% (I) respectively. On the other hand all the other enterprises saw their aliquot share rise from 10% to 11%. They suffered no loss.

Graph 18.



More importantly, the 100% margin in the three Enterprises now yielded a lower margin measured in Roubles. 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.

The irony, of course, is that we should have expected that an increase in efficiency in a socialised economy, measured by profits, would see the mass of those profits fall. This is commensurate with the reduction in labour time both undivided and divided such efficiencies yield. It is capitalism that is the oddity for here the fall in a company's share of the labour time of society (both paid and unpaid) is rewarded by extra profits.

Now it can be understood why margins have no place in a socialised society, why they not only obstruct planning but distort its priorities.

In a socialised society, only the movement of prices can incentive society. When this happens, it does not matter if the "enterprises'" share of the labour of society is reduced. What is decisive is that the labour time of society is itself reduced, which is then expressed as a fall in prices, everything else being equal. The reward is in the price. A society liberated from margins is a society free to run its economy in an unrestricted manner for ever.

However, we are dealing with the Soviet Union where enterprise managers sought to preserve the wage and benefit fund in order to employ sufficient workers to cover any shortfalls and to ensure that their tax and profit contribution to the state was met. Such an economy was the reverse image of capitalism. Here the incentive is to increase one's share of the labour of society, not to decrease it. (However, capitalism is not immune to this kind of behaviour. Government contracts, particularly defence contracts are based on cost plus. Contractors have an incentive to increase their costs as this gives them a bigger plus. The result is that contracts generally exceed their tender price, often the overruns can double the tender price.)

In an economy based on collective property, but where margins have not been abolished but prioritised, there is an incentive to duplicate rather than innovate. Through duplication there is no reduction in labour times or the share of society's total labour time. Two identical factories employ twice as many workers and produce twice as much labour. Twice as much labour means twice as much surplus labour under the existing conditions. The Enterprise's share of the labour of society does not diminish but can even increase. The mass of profits increases and even the state is happy because its taxation of profits has now become a key source of revenue.

In addition, to the cautious bureaucrat, duplication is safe. Introducing a new technique in any mode of production is always time consuming and fraught. Workers need to be retrained, new skills found, there is re-tooling and all the associated teething problems. These disruptions are worthwhile in a capitalist society because efficiency is rewarded with extra profits diverted from less efficient competitors. In the USSR, there was no such reward. Instead disruption in so far as it led to targets not being met, was rewarded with penalties instead of rewards. (Innovations are positively rewarded in a socialist society because the overall fall in prices always eclipses the additional costs of disruption.)

Duplication means the same machinery, the same material, the same skills are employed. Production can be quickly increased. No need to experiment and to find sources of new and strange machines and materials. Managers therefore had little incentive to introduce new techniques of production. While duplication does expand production, it does so at the existing levels of productivity. One could define this inertia as 'more of the same'. Not exactly the most dynamic form of investment. And this happened despite the fact that the USSR developed excellent science and technologies together with an educated workforce. In many areas they led the world. However, the lack of incentive meant industry remained unreceptive to most of these innovations.

As soon as profit was found to be counter-productive the bureaucracy reverted back to its traditional form of planning. The West drew the opposite conclusion, the bureaucracy had failed with its new policies because they had not gone far enough, their market reforms were too partial. And of course they pointed to the Czechoslovakian uprisings. Instead, the truth was that the enterprise managers were behaving predictably, profit in a socialised economy creates the incentive to raise costs not to reduce them.

The only alternative would have been for the bureaucracy at the centre to substitute itself for the market. Instead of the invisible hand of competition redistributing profits through unequal exchange from the less efficient companies to the more efficient ones, the state could have used taxation to do this. It could have raised taxes on the less efficient enterprises and industries while reducing it on the more efficient ones. That way the more efficient enterprises would have prospered at the expense of the less efficient enterprises.

The state would be taking with the one hand and giving with the other. This would have reduced the bureaucracy from centrally commanding the economy to arbitrating between the enterprises. It would have led to the expansion of the more efficient enterprises and the destruction of the less efficient ones.

Not only would the loss of production from the less efficient enterprises undermine the taut plan, it would also have led to the concentration of economic power in the more efficient enterprises. As economic surpluses accumulated in the efficient enterprises this would have undermined the control of the centre. It would have led to an economic civil war. The ensuing economic fragmentation would have torn the bureaucracy apart.

Instead the leadership had proposed saving the economy through increasing the role of profits. But the drive for profits backfired. The centre continued to subsidise less efficient enterprises. Now it had to reward the more efficient with extra profits. Instead of a redistribution from the less efficient enterprises to the more efficient, there was a redistribution from the centre to both the more and less efficient producers. The surplus controlled by the centre began to haemorrhage and with it the ability to finance the plan.

We may therefore sum up. Under capitalism the profit motive leads to innovation while in planned economy it leads to replication. This is the reason why capitalism remains, and the USSR is fallen. Profitability has no place in a planned economy. Once private property in the means of production has been abolished and with it exchange, the profit motive becomes counter-productive.

What the collapse of the economy in the USSR showed is that there can be no viable exploitative economy after capitalism. Let us say it again. Beyond capitalism there is only socialism, which means not only an end to private property in the means of production but exploitation itself. Once that lesson is learnt we need not fear what happened in the USSR but rejoice in the knowledge that it was not the abolition of private property that led to the downfall of the Soviet Union but the parasitism of the bureaucracy and their reliance on margins.

While recognising this growing problem, while recognising they were falling further and further behind the major capitalist economies, the bureaucracy found itself helpless. As we have seen profitability was counter-productive, taxation was no substitute and honest accounting out of the question.

Financial Planning like transparent pricing is not an option. It requires a democratic society devoid of sectional interests and antagonisms and it requires a committed working class. The opposite of the society that existed in the USSR where the bureaucracy hid its parasitism through false accounting, where individual bureaucrats lied about their own circumstances and even sabotaged one another's efforts in order to advance. Economic planning required the removal of all the shadows behind which the bureaucracy hid.

The point has been reached where it is worth summing up. Labour times can never be ignored. In a capitalist society they do not appear to be the determining factor, because they operate indirectly through the law of value and are therefore disguised. However, they impose themselves through their effect on the rate of profit.

In the Soviet Union, Stalin and later the planning authorities wilfully ignored labour times. Stalin's use of inflation was designed to extract a surplus product from workers by means of impoverishing them. Later, the planning bodies applied prices in order to regulate the exploitation of the working class and fund the state budget. Pricing remained subjective and was never tied to actual costs of production - they never represented weighted average labour times. While the bureaucracy sought to ignore labour times, labour times did not ignore the economy plunging it into the abyss.

The result was a pretend economy. The planning bodies pretended to price. They pretended to pay the workers with Roubles that could not be spent. Workers pretended to work. What was surprising is not that the system failed, but that it took so long to fail.

A SHORT NOTE ON STATE CAPITALISM.

In passing we need to deal with the State Capitalist Theory of the Soviet Union. Although Tony Cliff considered himself a Marxist theoretician, this theory has little to do with an understanding of capitalism, or with the methodology developed by Marx. It is in fact a revision of this methodology. For that reason it is worth repeating again that a mode of production is defined by the manner in which the labour of the individual becomes part of the labour of society, and further how this labour is appropriated.

This is inconsistent with the theory of state capitalism in the Soviet Union. In outline the theory of state capitalism holds that the USSR was a single or monolithic capitalist corporation owned and controlled by the state, which competed with the rest of the capitalist world through the arms race.

Marx on the other hand was adamant; capitalism could only exist as **many** capitals (companies, corporations, partnerships, groups of producers etc) owned independently. Once it ceased to be many separate capitals and became a **single** capital, it ceased to be capitalism. Why, because production would no longer be production for exchange, in short it would no longer be generalised commodity production. There would be no purchase and no sale, therefore no capitalist social relation resulting in surplus money – profit. For more on state capitalism visit https://theplanningmotivedotcom.files.wordpress.com/2021/03/profit-ussr-neyt-final.pdf

And as we have seen, where there is no exchange, there is no unequal exchange, and without unequal exchange no dynamic profit motive. Furthermore, when exchange is abolished, profit can no longer direct investment from areas of low profitability to areas of high profitability, as these too are based on divergences between exchange values and market prices. The central core of Volume 3 is devoted to the transformation of values into market prices of production through an understanding of the laws that govern the divergence of prices and values, which includes the extent of these divergences and their direction.

The theory of State Capitalism is therefore a repudiation of Marx's understanding of what constitutes a capitalist economy. Worse is to come, having failed to locate a market within the USSR (though barter was rampant) Cliff alights on competition between the USSR and the rest of the world, particularly the USA, in the form of the arms race. The arms race which exploded out of the antagonism between the different property forms is now used to equate the forms. This is not economics, this is sleight of hand.

So let us compare two arms races. In the USA, there are currently 161 arms manufacturers dominated by a handful of larger manufacturers producing for private individuals. The hand gun/rifle industry is an industry like any other distinguished only by the fact that it embraces a particularly nasty use value that takes life. All these various guns are distributed between and displayed next to each other in gun shops across the country. These guns are commodities, sold for money. As in every other industry, changes in the prices or capabilities of certain guns impact the rest through competition. Capital flows to this industry and from it like any other governed by the rate of profit. To be sure, were there to arise a moral revulsion over owning guns, such that demand plummeted, profitability in the industry would collapse and capital would flee from this industry to other more profitable ones.

Now let us look at Cliff's version of the arms race. The arms produced by the USSR did not enter the realm of distribution. In other words they did not sit alongside arms produced by other countries in shops or warehouses where they could compete, be sold, and where money could act as the medium to distribute profits. These guns may have been indistinguishable from those sold in gun shops, but they were not commodities. When the manufacturing process of a Kalashnikov changed from forging to stamping, more than halving the cost of producing one, it had no effect on the price or the supply of the American M14 or M16 rifles. The closest these guns ever came to competing was the exchange of bullets in the hands of opposing armies in South East Asia.

Arms produced for the capitalist state, for example the USA, are always a special case as they cannot ever be used to expand production, thereby enriching society. Here there is only a single transaction, the purchase. The state purchases arms for use not for resale. Money (taxes) goes out and no new money ever comes in. So arms spending is seen for what it is; a burden on society (taxation). Marx was quite blunt. The revenue spent on arms was the equivalent of dumping part of society's production into the sea.

It clearly was identified as such in the USSR, where the economic pressures to match the destructive power of the USA and NATO helped buckle the economy. Far from being a source of profit in the USSR, it was a source of losses to the rest of the economy, so why choose it as the focus of your drive to compete in the world economy. There was therefore no capitalist (profit) imperative in the USSR to engage in the arms race, just the pressure to survive in a hostile capitalist world.

But once again this is turned against the USSR by Cliff. An arms race is likely to increase production in Department 1 (means of production/destruction) and depress production in Department 2 (articles of consumption) It is bound to divert resources away from consumption to production of machinery and tanks. The scale and extent of this diversion between 1928 and 1950 is staggering. **"**In 1928, 'group B goods' (consumer goods) formed 60,5% of the Soviet industrial output and 'group A goods' (capital goods) constituted 39,5%. In 1950, the proportion was reversed and 'group B goods' (consumer goods) formed only 31,2% of the industrial production output whereas 'group A goods' (capital goods) constituted 68,8%."
http://www.centrosraffa.org/public/bb6ba675-6bef-4182-bb89-339ae1f7e792.pdf

To Cliff this reversal was decisive. Was it not Marx himself in Book 1, who uttered these immortal words: *"Accumulate, accumulate! This is Moses and the Prophets!"* Had the Stalinists not joined the capitalists in this battle cry and had the workers in the USSR not paid the price for this through a reduction in the production of articles of consumption in order to finance the accumulation of means of production/destruction. While it is true that all tyrants desire large buildings and giant factories as testimony to their greatness and power, much of this reversal was due to the expansion of arms production in an economy that was one quarter the size of the USA.

The final leg on which the theory of state capitalism rested was that the wage relation remained intact in the USSR. The functional unit of the economy in the USSR was the enterprise (or group of similar enterprises). The state imposed its own managers on these enterprises, all of whom were senior party members. In turn these managers were subordinate to the state bank and the planning authorities. In this way the party imposed layers of control to ensure they ruled both in the workplace and outside of it.

Central to managing workers is the payment of their wages. Wages are the umbilical cord that ties workers to their place of work. We refer, of course, to workers who had been rendered dependent by being deprived of their means of existence which had now become the property of an oppressive state. Paying wages centrally, say through Gosplan was possible, but that would have undermined management and would have fostered potential unity between workers across enterprises. Paying workers via their workplace was intended to be divisive – and it was.

It was impossible for the Rouble to become variable capital, that is payment for wages. Instead Gosbank (the state bank) replenished the wage fund in each enterprise against planned output. As for the rest of the inputs to the enterprise, Gosplan provided credits which could only be used in accordance with the plan to obtain designated inputs in measured quantities from specified suppliers. This was the antithesis of capital which by definition provides its owner the freedom to buy the factors of production from wherever and whoever in whatever quantities.

Furthermore, the wage fund was just that. The Roubles were returned to the enterprise in order to replenish the wage and benefit fund. Excess Roubles could not be turned into a hoard, used for other purposes or lent out. There were severe penalties for doing so and any excesses were confiscated. The payment of wages in the Soviet Union was not representative of a labour market, rather it marked one more layer of control. That is all.

There is no doubt that workers were exploited in the USSR. But they were exploited differently and to say they weren't is to lose one's way in the maze of abstraction. In a capitalist society, capitalists are enriched at the point of exchange, when they are paid for the commodities they have just sold. In the Soviet Union, it was the lever of the state that was used to extract the surplus from workers through prescribed margins levied on each enterprise. Products circulated in the USSR as state products and at planned prices which financed the state budget.

On both tests, therefore, the USSR could not be categorised as capitalist. Firstly, the labour of the individual became part of the labour of society in a manner different to that of capitalism. Secondly, the manner in which the surplus labour was extracted from that individual was different to that of capitalism. In many ways, the USSR was closer to feudalism than it was to capitalism because production under feudalism was primarily for use and taxation was the central means of appropriating the agricultural surplus. The state capitalists would therefore serve history better were they to describe the USSR as state feudalist, except that it was not, because it was a distinct mode of production with its own laws and contradictions.

The only virtue of the theory of State Capitalism, is that it allowed the various organisations that supported it to disassociate themselves from the USSR and evade the consequences of its collapse. In their eyes, the only thing that happened was a change in the form of capitalism in this part of the world. Cliff, if he is remembered, will always be remembered for revising Marx, badly.

CONSUMER LED PLANNING.

The ending of the separation of production and consumption, and therefore the basis for markets, makes planning necessary. Stalin at the head of the bureaucracy had no choice but to develop the productive forces on a planned basis, which is what occurred in 1928. By the end of the first Five Year Plan, the market for all intents and purposes, had been abolished.

The form of planning introduced in the USSR was not designed for nor was it intended to serve society, but rather the privileges of the bureaucracy. To hide their parasitism this plan would not be based on objective prices, but on planned prices aimed at exploiting the working class. These subjective prices or even political prices resulted in a plan which minimised efficiency and maximised waste instead of maximising efficiency and minimising waste.

In addition, this form of planning alienated the working class. It was prepared without their involvement and it was agreed behind their backs. They were the victim of the plan rather than its beneficiary. The plan dictated what they could consume and how much. It was authoritarian, paternalistic, and insulting. Authoritarian because workers had products imposed on them and their level of consumption decided for them. It was paternalistic because the state decided what workers needed. Finally, it was insulting because the products were inferior, unfashionable and often unsuitable.

The Soviet Union gave planning a bad name. It was not the centralisation of the plan in the USSR that made planning impossible. Instead, the problem was that the plan was imposed on society from above and this required its centralisation. It was a question once again of control.

Contrast this to democratic planning from below which is called consumer led planning. This term is precise for two reasons. Firstly, the development of capitalism itself teaches us that the most successful corporations are the ones closest to the consumer, those corporations who best understand consumer preferences and are most adept at adapting.

Secondly, planning cannot emanate from production itself. It is a misreading of Marx and Engels who talk of associated producers planning collectively. Today's market is saturated by tens of thousands of different products which together results from the international division of labour. Individual producers or workers contribute one form of labour to society. It could be the labour of a steel worker, an electrician or a farmer. But they withdraw from society fragments of social labour crystallised in the hundreds of different products they consume each year.

Due to workers producing one form of labour but consuming hundreds of different forms, planning is best done from the consumption side. This does not present a problem. The abolition of the separation of production and consumption found in capitalism, means that the producer now is at the same time the consumer. Consumer led planning is merely the producer expressing their preferences.

Workers knowing what their income is and what things actually cost to produce in real time can decide what they will be consuming and how much. This applies not so much to day to day products but to the more expensive and durable products. In addition, they will also be aware of all the technical possibilities currently available and potential new products. In this way, conscious decisions about what should be produced and how much will be made.

Workers will convey their consumer preferences to the planning bodies. The planning bodies will aggregate these decisions and organise production accordingly. Here the legacy of capitalism, particularly the internet, makes consumer led planning eminently possible. If capitalism had not invented the internet a future socialist society would have done so out of necessity.

Compared to the USSR the roles are now reversed. In the USSR, the planners (part of the state) were active while consumers were passive. Now it is the case that it is the consumers instructing the planning bodies what to produce. This means planning will be involving, empowering, dynamic and invigorating. The planning agencies will be administrative bodies not state bodies and they will survive the state long after it has withered. The function of the workers' state will always be limited to a purely political role, the enforcement of workers' rights and workers law. It has no economic role.

Consumer led planning or planning from below is not based on centralising or decentralising the plan. It is based on what is technically and organisationally the most appropriate means for carrying it out. If planning is led by consumers it will deliver what is required.

The right to decide what is to be produced is an absolute right. Provided it does no harm to others, there can be no interference with any individual's specific preferences. If workers want cars, that is what they will have and that is what will be produced in the numbers ordered. Here the imperative will be to produce cars that have a low environmental impact.

But once again, actual costs apply. Unlike capitalism where the price is limited to the narrow-paid costs of the vehicle, it now includes all the additional environmental and impact costs. This applies to every other product as well. In a socialist society, there is no longer a distinction between paid costs and actual costs. Actual costs in a socialist society will include the overall cost of consuming any product as well as producing it. The current unpaid cost to the world economy of pollution is over $5 trillion (World Bank 2016 report). If this unpaid cost was taken into account, the price of all hydrocarbons would more than double making renewable energy by far the cheapest source of power.

In return for this inviolable right to choose what will be produced, comes the duty to work in accordance with the plan. Individual workers cannot decide how and when they will work, for this individual privilege would disrupt the plan making it unworkable. The working class is a collective class and its freedoms and responsibilities are based on this recognition. The complex products that improve our lives and constitute our standard of living, are not produced by individual craftsmen or women. They are the combined product of thousands of interconnected workers gathered together in workplaces often hundreds of miles apart.

In time, the combination of a shortened working week and artificial intelligence will provide the space and opportunity for everyone to be an artist one day, a pianist the next while all the time learning new skills. In the interim however, we inherit a complex and advanced industry two hundred years in the making and the first order of the day is to ensure we can operate it and build on it.

WORKERS CONTROL OF PRODUCTION.

In a society divided between those who own but do not work and those who work but do not own, the producers must be managed and disciplined. At the heart of the rule by capital is the intensity of labour, or what is the same thing, how hard workers are forced to work. The ability of one company to intensify the exploitation of their workers is transmitted to other companies by means of competition. Competition acts as a coercive force whipping companies into line.

Within capitalism the production process varies in complexity. The capitalist class, beginning in Japan, has long ago learnt that pig headed management results in products that lack quality. If workers are treated mechanically, they produce mechanically. Companies like Toyota, discovered productivity and quality shot up when they delegated control of production to the shop floor though work groups. Workers involved in the work process are best placed to understand its strengths and weaknesses, thus best placed to manage it. Distant managers in their comfortable offices are not. Here for the first time we glimpse the potential for workers' control of production.

In the 21st century most workers are literate and numerate, unlike their counter-parts over a century ago in Russia. In addition, the larger companies have comprehensively computerised their methodologies and data to allow senior management to centralise the firms' intellectual knowledge. This makes the transfer of this knowledge into the hands of the workforce that much more efficient. Indeed, preventing the erasure, corruption or encryption of this data is one of the central goals of the fight for control of production. It will be a tenet of working-class law to exact severe punishment for those who effect the destruction of this data or the computer code needed to run modern industry.

Workers' control and management stands and falls on one tenet alone – the setting of the intensity of work. One of the central goals of the trade union movement has been the struggle over the tempo of work. In the USSR, the intensity of labour was enforced by draconian labour laws and state terror. What began as a trade union struggle against its excesses is now realised through workers taking control of production. Without the right to set the intensity of work, workers' management is reduced to mere phraseology.

In a socialist society, intensity is not set by an external coercive force such as competition, or the state, or managers, but by the voluntary agreement between workers which is then made collective and adopted across the industry. In this way labour is made uniform. Such a collective decision will require debate within each production unit and discussion between units and countries. And intensity will be adjusted by capacity such as age and gender. Its resolution is a democratic one and once it is agreed it is binding on every worker. Such a discussion is revisited time and again in the light of technical developments.

However, workers' management on its own will not prevent exploitation re-emerging. That requires working class control of the commanding heights of the economy or what is the same thing, control over the deductions from the social product. Only such controls can prevent these deductions being converted into a surplus, and those who administer it into a new bureaucracy.

There is a second aspect of workers control that needs elaborating on, its relation to planning. In the USSR, the planning bodies, a component of the Stalinist State, set the intensity of work and the capacity to produce through setting targets based on piece rates. In a democratic socialist society, the roles are reversed. Workers' control of production sets the intensity of work and cannot be interfered with by the planning bodies. It is out of their jurisdiction.

Once the intensity of labour has been agreed, and becomes uniform between industries, actual costs of production emerge. (Note 2.) These are the costs which the planning bodies work with and which are transmitted to them. The remit of the planning bodies is therefore apolitical, it is to match production to consumer preferences. Their purpose is to allocate the labour of society to satisfy the consumer preferences they have been given. They neither decide what is to be produced nor how quickly. Nor are they employers. In a communist society, workers work with, and do not work for, anyone.

Compare this to the USSR where GOSPLAN functioned as an arm of an oppressive state deciding what was to be produced, in what quantities and at what tempo. This gave rise to a charade. Formally the plant management and GOSPLAN would engage in determining the plan. But they had conflicting interests. The plant managers, knowing that success was based on meeting their piece rate targets, sought to minimise these targets by understating the capacity of their plants. GOSPLAN in turn was aware of this under-estimation of capacity which they compensated for by arbitrarily raising targets. The result was a plan based on faulty information which made it unachievable. It was this failure to accurately measure capacity which led to plants bartering products between themselves to help make up shortfalls and meet overinflated targets.

The command planning found in the USSR thus has nothing in common with consumer led planning. A socialist society will thrive because in such a society, workers' collective labour is rewarded by the pricing system, they receive back from society in proportion to their contribution, and what they receive back is what they have decided to produce.

Note 2. Under capitalism, disabled workers are discriminated against. The reason is their inability to deliver the intensity of work needed to provide surplus labour and therefore profits for the capitalist class. As the capitalists are only interested in their profits, not in paying wages, many of these workers are excluded from production and made to feel worthless. Matters stand differently in a socialist society. In positing uniform labour, we are stating the general case. There are exceptions. Many workers due to birth, injury or disease are disabled through no fault of their own. The rule under socialism is that they should therefore suffer no loss of income because of this. Therefore, under this condition, it is in the interest of a socialist society that they should work if they desire, because any contribution they make to production helps offset their unconditional income. Of course, the same rights do not apply to able bodied workers who refuse to work. Our constitution will outlaw unpaid labour. An able-bodied worker without a right of income, would therefore have to live off the labour of another person, which is impermissible. We did not get rid of capitalism to load up on passengers.

IN SUMMATION.

In any society where the labour of the individual becomes part of the labour of society, that labour assumes the form of a cost. And that cost is an expression of socially necessary labour times.

In simple commodity production, which preceded capitalist commodity production, competition enforced this necessary labour time. Once the same commodity was produced by a number of independent producers in a given locality, say a town guild, a single market price was established over time. This single price was the average for all the producers, as only the weighted average price multiplied by the quantity of commodities produced, could add up to the total labour time expended on their production by these different producers.

Competition enforced this price and changes in average labour times altered competition. Producers who took longer received less money for their efforts and those who produced in less time received more money for their efforts. The result was that competition forced less efficient producers to work harder and more efficiently by driving them towards the average. Competition had a homogenising effect on labour times.

In capitalist commodity production, which is an immeasurably higher mode of production, competition still enforces the rule of socially necessary labour times. Within an industry more productive companies earn more profits and less productive ones earn less profit. If a company's labour time rises so far above the average that it no longer covers its cost price, let alone make a profit, it goes bankrupt. The real difference between simple commodity exchange and capitalist commodity exchange is that the movement of capital causes prices to diverge from values leading to unequal exchange being the norm. This makes it more difficult to appreciate or observe the impact of socially necessary times and changes to it.

In a socialist economy, all the contradictions are resolved. Production which began tens of thousands of thousands of years ago on the basis of private production for private consumption, which advances to include production for episodic exchange, to exchange becoming more prevalent at the intersection of communities, finally becomes production for generalised exchange, enabling production and consumption to become increasingly socialised though within the confines of private property. Socialism at last completes the process, uniting production and consumption while fully socialising both.

Socialism is based on the emancipated worker. Co-operation replaces coercion, in this case the whip of competition in the hand of a hostile management. Workers will work with efficiency and discipline because it is in their interest to do so. This unity cannot be based on idealism, but on equal rights. The right of workers to see their labour costed accurately and be represented by objective prices. The right to receive in proportion to contribution. The right to decide what will be produced. The right to determine the intensity of work. The right to decide how much of their labour will be deducted to pay for those who cannot work themselves, for the planet, for administration and for new investment.

These are the rights that form our new constitution, society's highest and final constitution. They are what we fight for and they will make socialism successful. Labour time is part of our nature for we are the producers of this labour.

The bureaucracy in the USSR on the other hand sought to ignore labour times. By denying the role of labour time in production the bureaucracy was unable to economise on it and therefore grow their economy. Behind all human development lies the growth in labour productivity or what is the same thing, the economy of labour time, and woe to those who ignore it. It is with this eternal social law in mind that we bid farewell to the deranged economy of the USSR which was as far away from a truly socialist economy as night is from day, and back to the capitalist world economy and its contradictions. The bureaucrats now turned capitalists will find their problems have not ended, they are just beginning.

PART THREE. CAPITALISM AND THE WORKING CLASS.

Marx describes modern capitalism as social capital, no longer private capital. This corresponds to a world economy dominated by global corporations. Here we have capitals comprising many Billions of Dollars and combining the labour of tens of thousands of workers. With fewer but larger corporations, investment decisions have far greater consequences on the market than hitherto. Predictably, these corporations seek to reduce the effect of the invisible hand through huge expenditures on market research, by manipulating the market or even creating a market for their products where none existed.

The size of these corporations, the size of their investments, and the time it takes to implement it, increases their vulnerability to the market. What they crave above all is market stability. Hence, they draw closer to the state encouraging it to create certainty in a world of uncertainty. The primary levers deployed by the state to achieve this end are fiscal expenditure and more importantly monetary/credit policy.

So, despite their fidelity to the market, they are forced to adopt methods of planning. Their market research seeks to determine not only market needs but the size of the market. The boards of directors are really there to act on these decisions and to manage their workforce. Once agreed, plans including location are drawn up, and appropriate budgets set in place to ensure the necessary finance is available to set production in motion. All kinds of statistical methods have been developed to achieve these results.

More often than not, even the most informed decisions and detailed plans are upended by forces outside their control, namely investment decisions they are not aware of or changes in global economic conditions. The result is wasted investment, over investment or lack of investment. The shipping industry is a good example. Generally there are too few ships at the beginning of a new period of growth. Rates rise. More ships are built. Then the period of growth stops, but because ships take several years to commission and build, there are now too many ships.

Like the seas on which these ships ride, the same wave at an earlier stage of economic development does less damage to corporations than at a higher stage of development. Higher stages of development introduce investments that are larger, more complex, take longer to bring on stream, so are more susceptible to changes in market conditions, and they bear the potential for larger losses. Capitalism therefore makes its own case for planning. The more economies develop and the more complex they become, so more urgently grows the need for stability. Such stability can never be achieved in a market economy.

Despite itself capitalism is dragging society into an era of collective decision making. Planning is the conscious decision to allocate the economic potential of society to satisfy human needs. Planners do not make decisions what to produce or how much, as happened in the Soviet Union. All they do is execute decisions made by consumers. The purpose of production has become consumption.

Under capitalism the most successful corporations are those closest to the consumer, those who best understand their tastes and needs and who best satisfy them both through product formulation and service. In a socialist society it is the consumer who decides and the planner who implements. In a capitalist society the purpose of production is to accumulate capital, in this sense it is little different to the acquisition of herds at the dawn of class society, except that in the case of capitalist accumulation, society's productive potential is enhanced. In a socialist society, production for the first time is geared purely to satisfy society's needs and wants.

This unity of production and consumption is expressed through planning. The media, the internet will make society aware of its economic potential, what is possible and what is new and what the new will cost. Consumers can then allocate what part of their income they wish to devote to any product. These decisions can be conveyed via the internet and aggregated by the planners. Production can then be adjusted to satisfy these instructions. If nothing else, capitalism has laid the material pre-conditions for planning via the electronic revolution.

So instead of having an orchestra where one player changes the rhythm forcing the others to follow suit, only to have another player change it almost immediately, leading to only momentary equilibriums, now we will have a conductor. Instead of the discord of capitalism we will have the harmony of socialism.

Does that mean innovations will be stifled? That presupposes capitalism to be highly innovative. This is only partially true. As history's first industrial society, capitalism is admittedly the first systematically innovative mode of production. Only useful products can be exchanged, so throughout the history of capitalism there has been a frenzy to find more and more useful products capable of being exchanged.

But here lies the contradiction. Whereas only useful products can be exchanged the reverse is not true, namely that all useful products are **always** exchanged. Under capitalism, the usefulness of a product is always viewed through the prism of profitability. If useful products cannot be sold for profit, they are not produced, but ignored or set aside. Below we cite examples where use values are suppressed, ignored, distorted or simply misused in the name of profit.

- Many industries stifle or frustrate innovation to protect themselves, as in the case of the energy industry.
- Many companies ignore products that do not fit with or conflict with their mainstream activities like IBM and the desktop computer.
- Many needed products are not developed like new generation antibiotics because the market is not large enough, (despite the fact that we are only an epidemic away).
- Patents and patent wars benefit the lawyers not consumers, raise prices and stifle new products.
- Much innovation is spurious and extreme driven by competition like higher heels, faster cars, films including pornography, sports etc.
- A lot more is devoted to developing luxury goods out of reach of the majority of society.
- Still more innovation goes into making things look better or taste better regardless of the damage it does to the consumer.
- Product cycles are accelerated to make for early obsolescence.
- A significant proportion of new products are developed by the defence industries whose secrecy delays their introduction for years and even decades.
- The search for new use values invades every corner and aspect of private life and is intrusive.
- Innovation and science is abused and misused as in the case of the pharmaceutical industry where drugs are developed not for cures, but for control of medical conditions, so the same tablet can be sold over and over again, month after month, year after year.
- Innovation is turned against society. The electronic revolution promised a shorter working day and more leisure. In the hands of the capitalists, computers led to unemployment, more intensive work and the export of jobs to low-cost countries that could be tightly controlled by head office through the internet.
- Finally, there are the strategic needs of society out of reach of the corporations, in particular the three planetary priorities; large scale desalination, the conversion to the chemical storage of electricity and reversing CO_2. (In relation to the magnitude of these tasks, the isolated efforts of individual corporations fall far short.)

The above list is incomplete. Capitalism was and remains only relatively innovative. Having society, rather than corporations deciding on what to produce, will make for a more systematic approach to innovation. Production for use rather than profit will end the distortions and misallocations of effort in the field of innovation. The job security afforded by a socialist society will end the practise by scientists who resist the new in order protect their jobs, by defending the old.

Production for use rather than profit will make innovation more accessible not less accessible. It will not only channel innovation effectively and without duplication, but it will do it humanely, with kindness and free of manipulation. It will not create a frenzy to be the first to own, nor a culture where we are distinguished by the things we own. A socialist society is one where, because we are empowered and proud, there is no longer consumer fetishism.

THE MARKET AND DEMOCRACY.

The USSR provokes three fears. Firstly, that planning cannot work. Secondly that only the market can guarantee a democratic society. Thirdly that it corresponds to human nature and is a source of individual advancement. Having dealt with the first concern in Chapter 2, we can now address the remaining two concerns.

The emergence of generalised commodity production did introduce a revolutionary period which swept away the political oppression and interference of the landed gentry. The market does lend itself to democracy. The diverse ownership of commodities and their exchange demands formal equality between buyer and seller. The law has to treat both equally by giving neither side a political advantage. This even handedness makes the rule of law appear independent of the market participants with no one being allowed to operate above it or outside it.

The establishment and tolerance of markets in towns required the right of assembly, the freedom to roam selling one's wares heralded the freedom of movement, while the freedom to advertise and market these wares inspired free speech. Here then were found the stem cells or germ ideas which grew into a novel break-through society unknown in human history. The growth of societies based on the market in turn transformed the political superstructures. It led to an independent judiciary and to parliaments ultimately dominated by the owners and producers of commodities.

Of course, these parliaments at first represented less than 20% of market participants, being limited to the propertied class. It excluded the biggest segment of the market, the owners and sellers of labour power, the working class, including women workers in an out of the home. Long bitter struggles ensued to win universal franchise and to open parliament to representation from all the classes. In the end the universal democracy claimed by capitalism owed less to the largesse of the rich than to the tireless political activities of the working class, activities that were often brutally repressed.

However parliamentary democracy is limited by the division of society into a minority of capitalists and a majority of workers. Most of the decisions by which the worker is ruled and disempowered, takes place outside of parliament. Parliament does not hire and fire, it does not decide wage rates, it does not decide who will work and will not, what will be produced, or which factory will open, and which will close.

Those decisions are taken in the head offices of the corporations by their board of directors. These head offices are as far out of reach of their employees, as the Palaces, feudal courts and temples were to the serfs and peasants. When consultations do take place, their purpose is to disarm any opposition to the decisions already made by these elitist Boards of Directors.

Despite formal parliamentary democracy, everyone knows that there is one set of rules for the rich and one for the poor. The Chief Executive or Managing Director of a company or bank who ruins it is fired with a golden parachute, a huge sum of money in lieu of lost wages and a guaranteed pension. A worker who does even one thousandth as much damage would be sent to jail for many years. Claimants who abuse the benefit system are left to starve while the billionaires and millionaires who scam the tax system continue to enjoy their numerous homes and yachts.

However, it takes a recession to strip away the superficiality of bourgeois parliamentary democracy. The predicament facing every major electoral party, be it Labour, Socialist, Social Democratic, Christian Democratic, Liberal, Conservative etc. is this; how to carry out the orders of the tiny minority who own society, while pretending to represent the majority of electors or those who bother to vote. This masterful deception is only feasible during periods of economic expansion and then only partially.

But during periods of recession or economic crisis, when it is no longer a question of making concessions, but of taking them back, this whole balancing act falls apart. Electoral parties abandon their manifestoes, betray the electorate and quickly become discredited. If this results in voter apathy and de-politicisation, so much the better for the ruling establishment. This then is the benefit to the capitalist class of parliamentary democracy, the channelling of political power into the hands of a few hundred MPs who meet in a Palace and cannot be recalled or held personally or criminally accountable for their actions.

At the level of class struggle the lack of democracy is even more apparent. Every picket, every march draws the attention of the state, who allows it to proceed only if it is tightly controlled and therefore ineffective. If workers occupy a factory or hospital that is to be closed, they are treated as criminals, regardless as to whether that factory or hospital is vital to the community. No more, they are treated as trespassers, despite the fact that it is their past and present labour that produced these factories and hospitals. The legal thieves, the capitalists, are not persecuted for this vandalism, for this crime against the community, but excused, forgiven and even praised for acting in the interest of the market.

As long as the class struggle is confined to the wages struggle and does not challenge the wage relation itself, the state is able to conciliate, to help both sides strike a bargain. So soon as it goes beyond this, the state casts aside its veil of neutrality. Now it is revealed that it has been spying on workers and their organisations all along, providing confidential information to the bosses and targeting trouble makers. That it has inserted into the ranks of workers, agents whose purpose is to confuse and undermine their struggle. That many of the workers' leaders are in the pocket of or have been blackmailed by the secret police. That the state media is now being used to discredit and misreport what is happening so as to isolate those in struggle. And soon workers in shirts are confronted by police kitted out for war. The closely guarded identity of state is now fully revealed: it is the dictatorship of the capitalist class, the assembled and organised political force tasked with the protection of its property and its economy.

There can be no real democracy is a society divided into a minority who own but do not work and a majority who work but do not own. In such a society the minority will seek to rule through consent, through parliament. When that fails, as it does during period of extreme economic distress, they will resort to what an oppressive minority always does, violent oppression.

The capitalist class and their media always accuse the left of being undemocratic, of wanting to abolish parliament, of being against the popular vote. How disingenuous. Since the second world war the capitalist class, especially the US ruling class has abolished not tens but hundreds of popularly elected parliaments around the world with coup d'états, military interventions and even invasions. From Brazil and Argentina to Iran and Iraq, to Greece and Portugal, democratically elected governments have been overthrown and their popular leaders assassinated or driven into exile. And of course when capitalists abolish parliament and suspend parties, it makes it tricky for them to stand on their high horse and point finger at one party states in China and the USSR.

The parliamentary road to socialism is impossible because the capitalists will not allow it. Once workers have outgrown parliamentary democracy, once the streets are alive with protest, once the organisations of the working class start asserting themselves and making independent demands, then the capitalists will declare a state of emergency, dismiss parliament and suspend the rule of law. They will seek to discard all the impediments standing in the way of their naked rule, anything that holds them back, that offers any protection to the other side. Now it becomes a pure test of power, dual power, that has to be resolved one way or the other.

Communists do not seek to abolish the gains of bourgeois democracy but to add to them, to complete them. We seek to make democratic that which is out of the reach of the vast majority of the electorate under capitalism, control of the economy, control of the surplus of society and its management in the interest of society as a whole. We seek to elevate each and every worker to the level of managing director.

The right to vote on its own, is meaningless, as black South Africans learnt in the 1990s. They could not turn their vote into cash nor use it as a deposit on a house or swap it for a job. Everything had changed and nothing had changed. The vast majority remained as before; poor, desperate and unemployed.

There is only one real test of a true democrat and it is this; "do you or do you not support the abolition of private ownership of the means of production". Everything else is irrelevant for without the abolition of private property in the means of production how can there be true and lasting democracy. As long as a minority exploits the majority, bourgeois democracy will be superficial, episodic, and a sham.

A socialist society must enshrine multi-party democracy provided no party supports the return of private ownership of the means of production, itself a thoroughly undemocratic act. The working class is a class that embraces the majority of society. Its sheer size means it is riven by sectional divisions, especially that of skill, but also by sex, age, race and nationality.

Within the overall class interest, special interests will exist with differing priorities. Some sections of society will campaign for the speediest abolition of the difference in skills, for the advancement of women, some will campaign for more funds to be devoted to repairing the planet, others for the rapid advancement of the less developed economies and so on. A single workers' party should seek to represent these diverse views, but if it cannot, these groups should be able to form factions or even Parties to make their voices heard and to negotiate. What no party can do after the revolution is to claim a leading role which always reduces to this, a governing role.

No one can say in advance what political forms will emerge. What can be said is that a democratic socialist society based on majority rule, will be a lively place for politics. At the very least it will transform television from the opiate of the masses into an exciting medium to both inform and give voice to debate from every corner of society.

The workers' state that will replace the bourgeois state will have to assimilate all these demands. It will represent the principle of equal right within an unequal working-class courtesy of the legacy of capitalism. As soon as the socialist economy is flourishing and the protection of collective property is no longer a concern, as soon as inequality within the working class vanishes, so the state no longer serves a purpose. It withers as its role of protecting and arbitrating vanishes, leaving only its administrative function. It thereby ceases to be a state.

It ceases to be a state in a double sense. Collective property itself is a mere legal transitional form. When the means of production and the land are owned by all, it is no longer owned by anyone. It ceases to be property and it therefore no longer requires a state to enforce property rights. The purpose of the state which was born out of the formation of property in land and the instruments of production, is now spent, and it ceases to exist.

Democracy has put an end to itself by putting to an end the inequality that gave rise to it. In its place will emerge new emancipated individuals who no longer distinguish their needs from the needs of others. No longer will members of society be connected by the things they produce or want, but by direct human and personal ties. A harmonious and egalitarian community will have been established. As Marx said; this will represent the birth of true human history, the dawning of a new age.

Finally let us deal with the view that the market encourages and rewards individual effort. As the saying goes; "We are hardwired to buy and sell, and inside each and every one lurks a hidden trader". In other words, that capitalism describes our being. This nostalgic view may be romantic but it is completely out of touch and irrelevant.

It is now two hundred years since the introduction of the factory system which secured the future of capitalism. In those two hundred years there has been an immense concentration and centralisation of capital. Today we are surrounded by huge corporations and banks. Within most countries four or fewer companies dominate each industry controlling at least 80% of output and trade within it.

On a world scale, most industries are dominated by fewer than twenty corporations, some like aerospace, mobile phones and computers by less than ten corporations. It would be accurate to define this state of affairs, as international monopoly capitalism. Most of the world's Research and Development takes place in these companies. The swarm of smaller companies that circulate around these corporations are beholden to them.

Of course, it is true that these large companies become less nimble and more cautious as they grow larger, that reporting to Wall Street or London every quarter discourages long term strategies and leads to cautious and incremental improvements. Nonetheless their size makes possible economies of scale, the streamlining of production, and the ability to harness the latest technologies. These technologies often involve huge outlays, many running into Billions of Dollars, and are out of reach of the smaller companies.

The wheel of history cannot be turned back. Big is not necessarily beautiful but it is bountiful. These giant companies unite hundreds of thousands of workers in common effort. They teach humans how to combine and co-operate. They tend to be much more productive than their counterparts in smaller companies. We should not confuse ownership with size, and therefore identify the problem as being size.

In addition, it is easier to expropriate handfuls of giant corporations than tens of thousands of smaller enterprises. It is easier to build an integrated world economy on the back of these multi-national corporations. Indeed, these corporations provide the best school for internationalism, because the workers of the different nations will have to learn to unite if they are to stand up to the attacks of these world size companies.

These corporations have above average rates if productivity. Why squander these levels of productivity by breaking them up? High levels of productivity are the key to the new world.

Finally let us address the myth of social mobility. Here we may consider the legendary American Dream. For the majority of North Americans, this dream is really a nightmare. Like the lottery only the winners are highlighted and the millions of losers ignored. Most Americans are mired in poverty with no way out.

The fact is that capitalism breeds failure not success. In order to maximise profit, capitalism has to reduce its paid costs of production. It analyses every labour process in great detail with the purpose of breaking it down into the **maximum** number of simple and unskilled steps. These are then held together by the **minimum** number of skilled or intellectual steps.

By reducing the labour process into a large number of unskilled tasks, these can then be carried out by cheap and unskilled workers. Hence the vast majority of jobs in the world continue to be repetitive and unimaginative, while only a minority are skilled and stimulating. Capitalism and its quest to reduce the paid costs of production, thus necessarily creates a society based on failure due to its need to trap the vast majority of society in low paid unskilled work which is increasingly being mechanised.

It covers this truth with the myth of education. Education is presented as granting each person the ability to secure skilled work, of levelling the playing field. But education does not alter the mix of skills in production. If too many skilled students graduate, creating a surplus, they have to accept menial jobs for which they are overqualified. In reality the primary purpose of compulsory education is to prepare the next generation of entrants to the labour market.

The indispensable condition for this is the separation of production and education. This creates the environment which allows the employers, via the exam system, to divide the youth and force them to compete with each other. The isolation of exams mimics the time when individual students will appear alone in the labour market, to sell their labour power. This form of education makes it therefore easier, not more difficult to consign the next generation of society to a life of failure, by destroying any bonds of solidarity between them. And all this is done under the veneer of equality of opportunity.

Since the 1980s and the defeat of organised labour, the rich have got richer and poor have become poorer. The richest 62 billionaires own more than the bottom 3.5 billion citizens of this blighted planet. (Oxfam) The rich have remained the rich and the poor have remained the poor. Indeed such if the lack of mobility that we may define the upper crust of society as a new Aristocracy whose children are princelings, destined to monopolise the best in society, be it education or job opportunities. The privileges that surround them are akin to the old castle walls and moats that protected the rich from the poor in previous societies.

Worse, the combination of growing inequality and tax dodging has a deadly effect. With wealth flowing into fewer hands and these hands hiding tax, governments are increasingly deprived of revenue. The result of this tax strike by the rich is a savage attack on the poor as services are culled and help withdrawn.

The foundation for this lack of mobility is class. The apologists of capitalism never tire of clouding this class reality in order to obscure class divisions. In response we declare, a worker is one who works with means of production owned by another. Forced to sell their labour power, they either earn a wage, a salary or a commission. Using this objective criteria and not individual perceptions, it becomes clear that the vast majority of society are workers amounting on average to 80% of the population. The fact that they may work in different occupations, different environments, enjoy better pay and have different levels of skills, is unimportant. They belong to a class of dispossessed producers whose ability to live depend on their ability to acquire work from others.

It takes a recession to blow away the illusions over class. Mass unemployment and the fear of it, reveals to every worker their vulnerable position in society. It wipes away their pretensions. Over the years the outlook for the working class in the developed world has worsened as competition from low wage countries has intensified. For these hundreds of millions, revolution is not an option, it is a necessity if they are to survive and thrive.

There is nothing fixed about the human personality. We have always had a dialectical relationship with nature. As our endeavours changed nature so we were changed. The development of irrigation and the food security it afforded, emancipated us from blood sacrifice to appease the gods. It built civilisations, home to philosophies questioning the purpose of our existence. Finally, ten thousand years later, the harnessing of steam not only amplified our ability to change nature, but has brought us to the brink of destroying nature as we know it.

We are not the same people we were hundreds of years ago, never mind thousands of years ago. Three hundred years ago, a smartphone would have been considered magical, a jet plane flying overhead, terrifying and a photograph, blasphemous. We may have our origin in the animal world, but we alone are not subject to nature. We alone are able to transform nature and in doing so liberate ourselves from the narrow conditions set by nature.

The true emancipation of the human race is industry, the amplification of labour power to reshape nature. Capitalism, this first crude industrialisation period, does so destructively, driven by cost cutting. Socialism does it constructively recognising this to be our only home. In emancipating ourselves from the tyranny of private property and cost cutting, and by using industry for the well-being of society and the planet, we will escape the history of scarcity that shaped our character and we will emerge as co-operative beings no longer competitive, because we must and because we can, for our industry has made it possible.

IN CONCLUSION.

In the end, it is not a question of viewing human nature outside of history. It is capitalism that forces change because it is a historically limited and contradictory mode of production. When it has exhausted its economic potential, it needs to be superseded by a higher mode of production. This requires a new form of worker, one who has shed the ideological baggage of the past and who has overcome the competition that paralyses the working class.

Since 1970 the world capitalist economy has suffered 6 minor and major recessions. During this time it has been supported by the collapse of the USSR and the opening of China to the world market. Above all the defeats of organised labour in the 1980s has shifted the balance of forces decisively in favour of capital.

The twenty five years since fall of the Berlin Wall has been a period of reaction or as it has been more popularly called, neo-liberalism. In order to free the market many of the democratic gains won by the working class have been rolled back. While capital has become more international, the trade unions remained fractured by nationalism.

One of the features of this period has been the growth of religion. Up to the present, the acceptance that there is no alternative to the prison house of capital has hung heavily on the world. The rise in religion cannot be explained otherwise, but as an abandonment of hope. Countless millions have sought to escape the misery and the predicament they find themselves in, not in politics, but in the anaesthetising embrace of religion.

There is no final economic crisis that will topple capitalism. The general law is that the more capital develops and with it the composition of capital, the more capital that has to be destroyed in order to restore profitability. This means that the working class is called upon to make larger and larger sacrifices at the altar of capital.

In the period prior to 2007 the capitalist class arrogantly thought they had finally triumphed over the international working class. They declared the end of history, that capitalism had won, that it was the highest expression of human economic activity. However, the most fundamental financial crisis since the Second World War has caused them to pause and consider just how brittle their economic system actually is.

It took an event as momentous as this financial crisis to reopen the debate over capitalism. This time the capitalists had no one to blame for their woes. There were no militant unions to point figure at, no galloping wage demands and no overweening state. Two decades of neoliberalism, of letting the market rip, had left the capitalist class ideologically naked. This was capitalism in its pure and ugly form.

Everywhere the weight of insecurity crushes the possibilities lodged in production, namely that society's productive potential is sufficient to provide each and every one of us with a comfortable and secure life. In the USA the wealthiest 20% consume 75% of retail sales and the remaining 80% have to be satisfied with 25%. (President's Advisory Panel analysis of Hybrid Sales Tax Bill) Redistributing this wealth from the top 10% to the other 80% would result in a doubling or even trebling of their living standards.

In addition estimates of the unpaid taxes in various havens is put at $32 trillion. Add in the $10 trillion lying unspent on the balance sheets of the largest 1000 global companies and the unknown sums lying idle in the banks, and there is enough unspent capital to finance hundreds of millions of new jobs overnight. If capitalism invested this idle hoard, it would create sufficient jobs to prevent workers being forced to migrate from country to country looking for work. Most workers would prefer to stay at home if there was work at home.

Instead immigration is dividing the international working class, fracturing it and encouraging workers to support immigration controls for their country. The right-wing populists who champion immigration controls, who call for the erection of razor wire, who offer cheap national solutions to the crisis of capitalism, are on the ascendancy. However, they are like sparklers which burn bright but only for a short time. Within months they are shown to be no different to other politicians. They are exposed as rich opportunists seeking to exploit the misery of the poor for their own ends.

It is the politics that will come after their fall which will be decisive. Once the right-wing populists burn out, it will be the turn of the left once more. But if the left continuous in the old way, offering reformist solutions to the crisis of capitalism, they will fail and the consequences for the working class will be severe.

Instead we need to build a new revolutionary socialist movement whose programme is anti-capitalist. We need to build on the growing awareness that most of the problems facing humanity cannot be dealt with by the system. That capitalism is the problem, not the solution, to the global crises facing humanity. First and foremost, that means climate change. Climate change is not accidental. It is caused by the drive to reduce the paid costs of production in order to maximise profits. If pollution can be ignored, passed on, regardless of the damage to society or the consequences for the future, it is not seen as a cost.

To be blunt, it is only when pollution or climate change has to be paid for that capitalism recognises it as a cost. Not so under socialism where there is no distinction between paid and unpaid costs. In such a society pollution will be recognised for what it is; a collective threat to society that has to be dealt with immediately. Liberated from the shackles of private property and the need to maximise profits, a socialist society will be free to mount a concerted, orchestrated and mass campaign to reverse the damage industrialisation has inflicted on our home. Imagine the difference the $4 trillion wasted on the "war on terror" would have made had it been spent on reforestation and alternative forms of energy. Perhaps it is time to change our slogan from "socialism or barbarism" to "socialism or climate catastrophe". Capitalism could cost us the earth.

But it is not only the planet that is being polluted, it is our bodies as well. We face an epidemic of chronic diseases so beloved by the pharmaceutical industry, obesity, heart disease, osteoporosis, colitis, diabetes, cancer, depression, dementia to name a few. The inability to learn at the beginning of life is juxtaposed by rotting brains at its end. Society has been turned into a careless economic jungle where the corporations roam. In its undergrowth more and more life is trampled on. As society becomes more unequal, so illness accelerates.

The capitalists view the march of Artificial Intelligence with trepidation and greed. Trepidation because A.I. threatens to make 40% of society redundant heralding social unrest. Greed, because it dramatically reduces its paid costs of production. Artificial Intelligence is not the alternative to globalisation. It does not herald bespoke small factories serving national markets. Rather it heralds gigantic factories where volume compensates for the fall in the value of each item. This is the logic of capitalism and its profit system. It will lead to fewer but larger factories requiring the world market to satisfy its output.

With the advent of A.I., Marx's hypothesis as to the driver of social change - the development of the productive forces coming into conflict with the existing relations of production - is once more thrust to the fore. It is unlikely that capitalism can survive the introduction of A.I. and the political upheaval it will provoke. A.I. requires new relations of production, a socialist society, where it can be used for the good of society rather than for profit. Whereas in a capitalist society A.I. will create mass unemployment, in a socialist society it will shorten the working day and working week freeing society from drudgery. Lenin's earlier description of socialism being industry with electricity, is now replaced by industry with artificial intelligence.

Finally, in the age of space travel, we need one world. When viewed from space, our beautiful blue planet, suspended in the infinity of space, seems small and fragile. A unified planet is possible when nations are dissolved, but for this to be accomplished the basis of nationhood – private property – must first be abolished by the only class that has no interest in its preservation - the international working class.

It was the steam train, nearly two hundred years ago, that united the nation state during the youth of capitalism. Now space flight unites the entire planet at the demise of capitalism. Nationalism was to capitalism what internationalism is to socialism, a step upward. Capitalism has developed a world economy which now forms our inheritance. Every substantial commodity is the product of many nations and multiple continents. The production chain now spans the planet.

It is time we created an international society in which we all own collectively thereby ending all divisions and competitive antagonisms. The empowerment of the many is now based on the disempowerment of the few. In doing so we not only set free the productive forces but we end the threat of **nuclear war**. Through abolishing private property, we end the competition that arises from it and is driven by the insatiable quest to gain more private property at the expense of others. War was and remains the intensification and extension of economic competition into the military arena.

Today that translates into the growing competition between China, the rising economic power, and the USA, the declining power with Trump at the helm. In the age of nuclear weapons, war threatens all that we have achieved, which has cost so much blood and lost so many generations. The working class stands once again at the crossroad of history. If it fails to act in its own interest and the interest of humanity, all will be lost.

Capitalism is beset by compounded and interconnected challenges. Its economy is stalling with productivity flatlining. It faces the challenge of A.I. which it has given birth to. Its efforts to reverse global warming is failing. Finally, the world economy is splintering as the new power, China, challenges the old power for hegemony. Over the next decade all these contradictions will mature at once, provoking a political crisis of the highest order.

The overture to the symphony of revolution is always sounded by intense ideological debate. Society is forced to consider and debate the way forward. Through the intensity and beauty of this debate, the best of humanity will emerge. It is the breath of fresh air in a room grown stale and musty.

Of course, we expect our critics to dismiss us as idealists fated to repeat history. Let us reply to these enemies of change as politely as we can, only idealists can change the world, but idealists who are also scholars, not only change the world, they secure its future. And they do so because they have diligently studied the past. Understanding what happened in the USSR is not an obstacle to changing the future; it is a necessary condition for the successful and irreversible transformation of society.

Ten to twelve thousand years ago, a section of society could imagine not working by making others work for them. Now it is time for the working class to imagine a society where no one works for others. A society without classes, all of humanity emancipated from its past.

Brian Green. April 2017