

# UNDERSTANDING THE FAILURE OF THE USSR THROUGH THE PRISM OF CAPITALISM

## Foreword 2025.

This is the fourth iteration of this pamphlet first published in 1999. It is a shortened version leaving out several sections in the [original pamphlet](#). However, I have tried to keep it as close to the original as possible which means that some of the statistics are dated. This pamphlet is in two parts. First it provides a basic understanding of the primary capitalist relations of production. It then uses this understanding in the second part to explain the contradictions which felled the USSR. Notably, this pamphlet for the first time explained why the use of profit would be counterproductive in an economy where production was now for use not exchange. A novel feature of this pamphlet is its use of graphs to explain complex issues to the reader.

## A note on Methodology.

Our readers may ask why we analyse capitalism in the pamphlet 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 minimising 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 physics. It seems the one area which is disallowed is economics, precisely the area which was the focus of Marx's research and analyses. He recognised that capitalism was a complex, living and evolving system that could not be fixed 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 challenges 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, its essence or structure.

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 the basic structure has 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 or underlying structure. 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 concrete 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.

Instead, we would begin with all the features that we share in common, all of which must be present to define 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. 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 common to the human face while being unique 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.

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 the use of the general and the unique 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 complicated 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 programmed 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 features. 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, average rates of exploitation, 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 is 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.

Das Kapital is a difficult read but well worth it. It is not only a critique of capitalism, but a primer for building a future society based on resolving all the contradictions found in the capitalist mode of production. Without it, I would never have been able to critique the USSR.

## **CHAPTER 1. WHY CAPITALISM TENDS TO CRISES?**

To understand socialism or more correctly the lower stage of communism, 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 fullest realisation of the potential lodged in private property.

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 now 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 a class based society marked the transition from a matrilineal society to a patriarchal society which 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)man's 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 or agrarian religions.

#### **THE EMERGENCE OF THE MARKET.**

For ten thousand years, agricultural production dominated society regardless of whether it was based on slavery, feudal or the 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 to 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 or even torn apart. 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 disruption to 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 those who own the surplus in a 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.

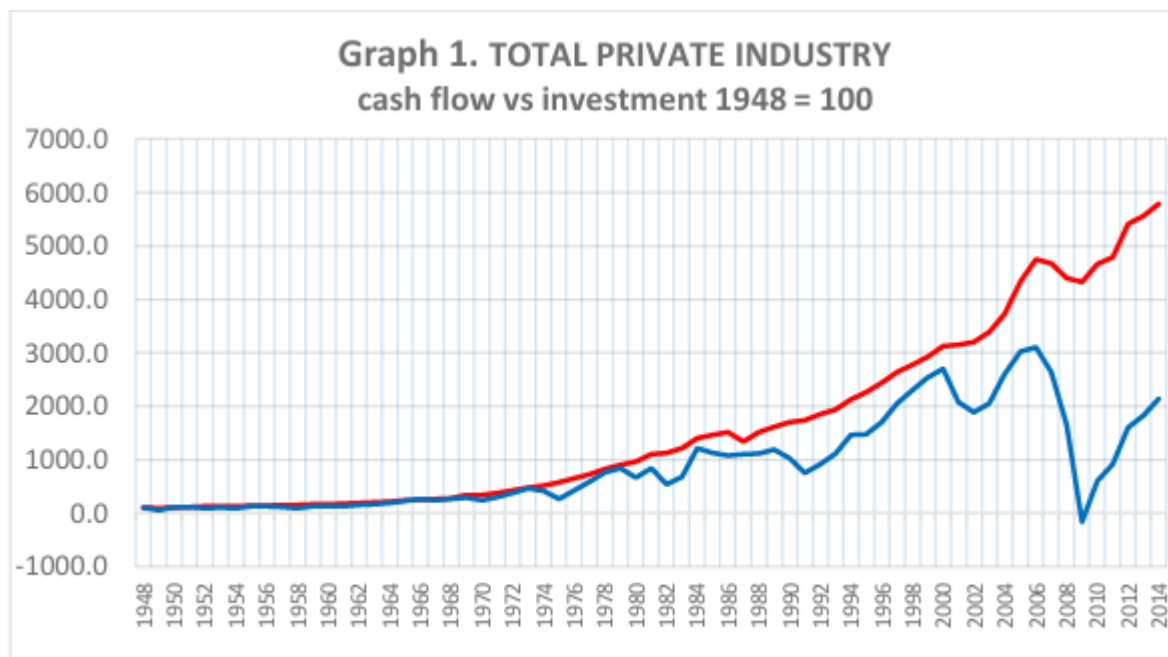
Without investment, production would grind to a halt. However, the decision by capitalists to invest this surplus is not driven by the need to benefit society but to enrich themselves. They are driven by the profit motive. They throw capital into production in order to realise more capital at the end 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 existing ones, and they employ fewer workers or pay them less. In addition, this lack of investment which reduces revenue, 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 progressively 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 this time using 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, taxes 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 which 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 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 and a dishonest character.



The expenditure of labour needed to produce any commodity which gives it its value is measured by duration – time, the time spent on its production. Thus, the individual 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, the land 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 release. 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 private 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 /information 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 the socially necessary labour time expended on its production. 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 ten 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 at the same time. What is the same thing, each commodity now incorporates 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, as mistakes become more expensive, 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, what and how to produce, prepares for it, and where once there was disruption and chaos, 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 (s)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 and selling 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 worker costs the capitalist is not comparable to what the capitalist costs the worker.

The labour expended in production is a cost to the workers 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 or benefits. 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 is, 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, their so-called cost price. If workers were paid for all their labour, then of course there would 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 10 grams of gold coin equivalent per day. Accordingly, the daily wage bill for the mine would be 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 the 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 degree 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 degree of exploitation. In the case of the gold miners the rate of exploitation is 400%, composed of 8 hours unpaid labour divided by 2 hours 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, enabling the capitalists to 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 degree of exploitation. We can therefore see that the battle cry of the trade union movement, "A fair day's pay for a fair day's work!" while powerful 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 cannot be 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 that rising productivity has on labour times. We could therefore expect the systemic 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, and Chinese workers currently, no major body of workers has enjoyed a sustained period of price reductions.

Why have actual costs and market prices gone in opposite directions? The answer lies with paper money, state money. Central banks for the last four decades have made it their business to try and raise prices by about two percent each year by tampering with the money supply. This two percent figure is not arbitrary it approximates the average rise in productivity over this period. This means that if workers receive an average wage rise of less than 4% (2% inflation plus 2% productivity improvements) then some of their productivity improvement ends up in the pockets of their employers.

The cat is out of the bag. The capitalists fear price falls or deflation as it is called. They make all kinds of excuses to say that price falls discourages consumption because consumer will wait for anticipated lower prices, compared to price rises which causes an increase in consumption because consumers worry about prices rising. Of course it is all nonsense. Their real concern is that falling prices makes wage negotiations more difficult if not impossible. If employers wish to rob workers of their

productivity under conditions of deflation, they will have to cut wages faster than prices are falling making it more difficult to disguise the fact that they are robbing workers.

But Central Banks do not have it all their own way. They have struggled to raise prices by two percent under normal market conditions. The reason is explained by [Modern Marxist Monetary Theory](#) or MMT for short. This theory treats money as it should, as a social relation, not as a thing. When most commentators talk about fiat money with no intrinsic value, mere paper or coin, even digital, they are treating it superficially as a thing.

MMT on the other hand does treat it as a social relation, one which is based on value. This theory explains how the bulk of the money supply is formed from previously produced revenues representing legacy value. This is the monetary equivalent of wages, rents, interest, profits and taxes produced and earned during previous cycles of production and which is yet unspent. As this revenue has been previously produced, its amount is fixed, and short of fraud cannot be changed. This is the ballast which keeps prices stable. This is the immovable obstacle facing Central Banks.

Thus, the exchange where money meets commodity, is really the act whereby the sale converts newly produced value into new revenue through payment, while on the side of the purchase, old revenue is extinguished through the act of buying. Value on both sides of the exchange, revenue (legacy value) being extinguished replaced by new value converted into revenue.

#### **UNEQUAL EXCHANGE IN A SOCIETY BASED ON EQUAL 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.

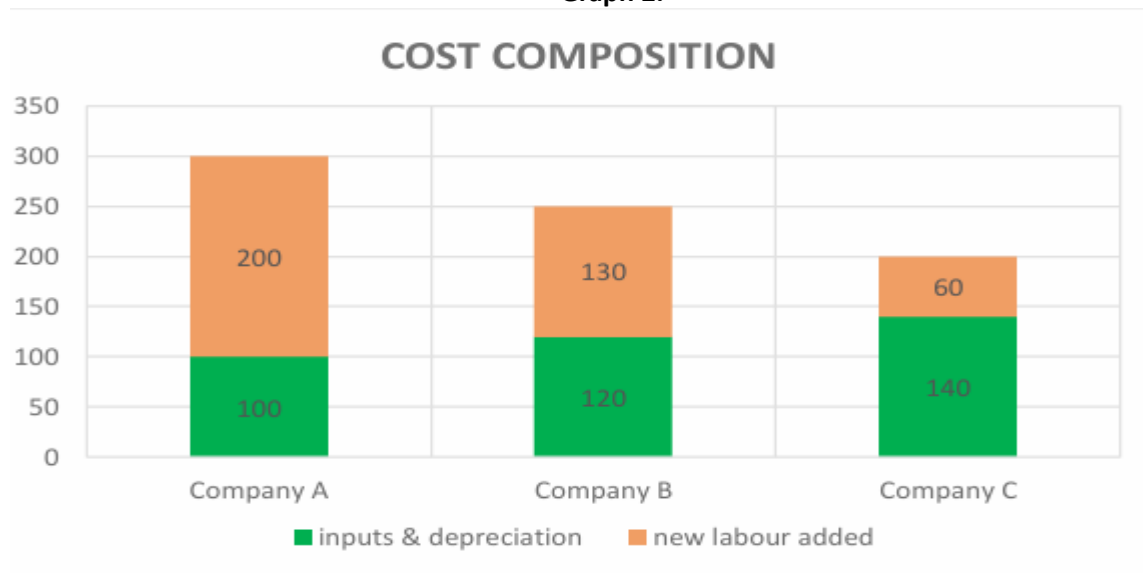
Returning to the economy. Because industries differ and capitals within an industry differ, exchange tends to be unequal. Due to this inequality, companies that are able to sell their commodities at a price higher than their value earn an extra profit and companies that are forced to sell their commodities at a price below their value lose some of their profit. No longer does individual price equal value.

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 in their firm is reduced and with it the unpaid labour element. So how do they end making more profit, not less? Where do they get the extra profits 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, externally, 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 the medium of 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 to complete the product.

Graph 2.



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.

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 paid. In other words, *variable* capital provides the wages, salaries and benefits 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 forms 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)  $100c + 100v + 100s = 300,$

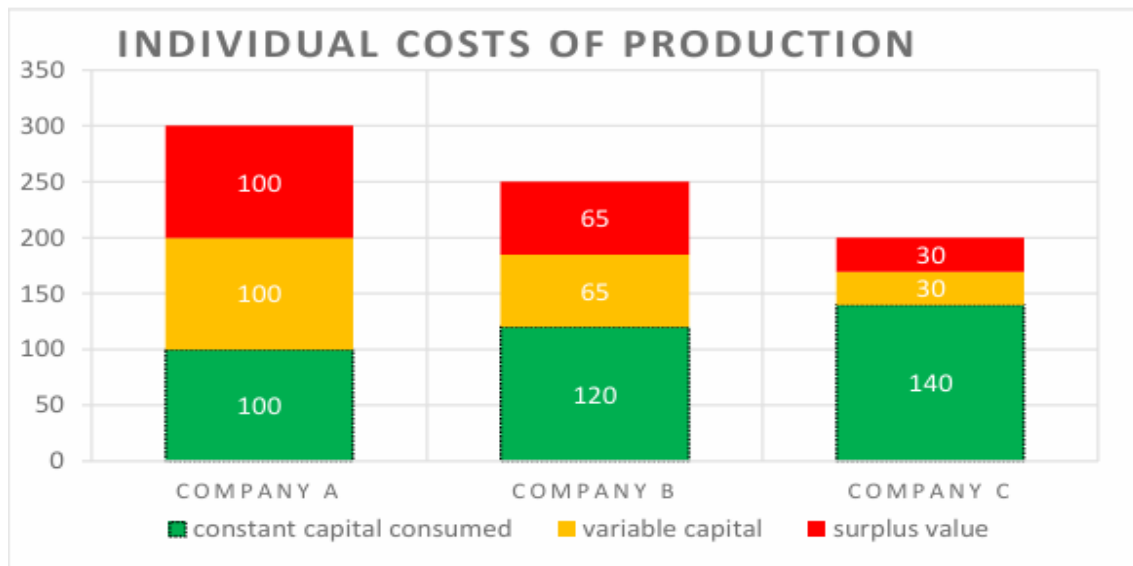
(B)  $120c + 65v + 65s = 250$

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

yielding an average cost of production of 250.



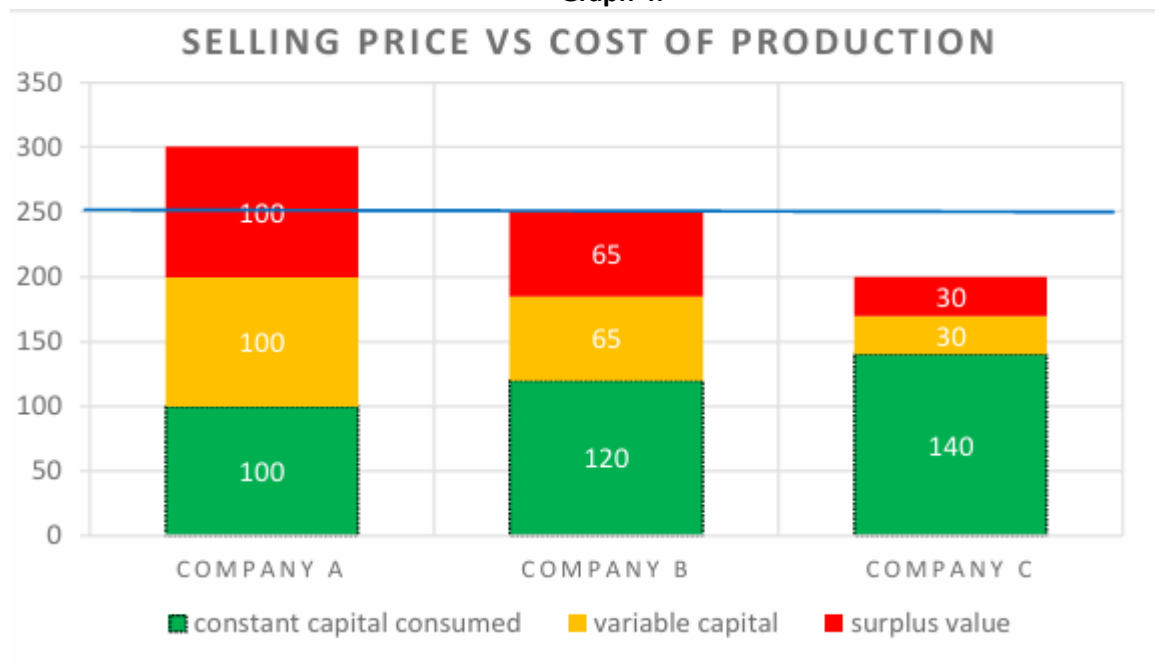
Graph 3.



All companies enjoy the same degree of exploitation or 100%. 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.

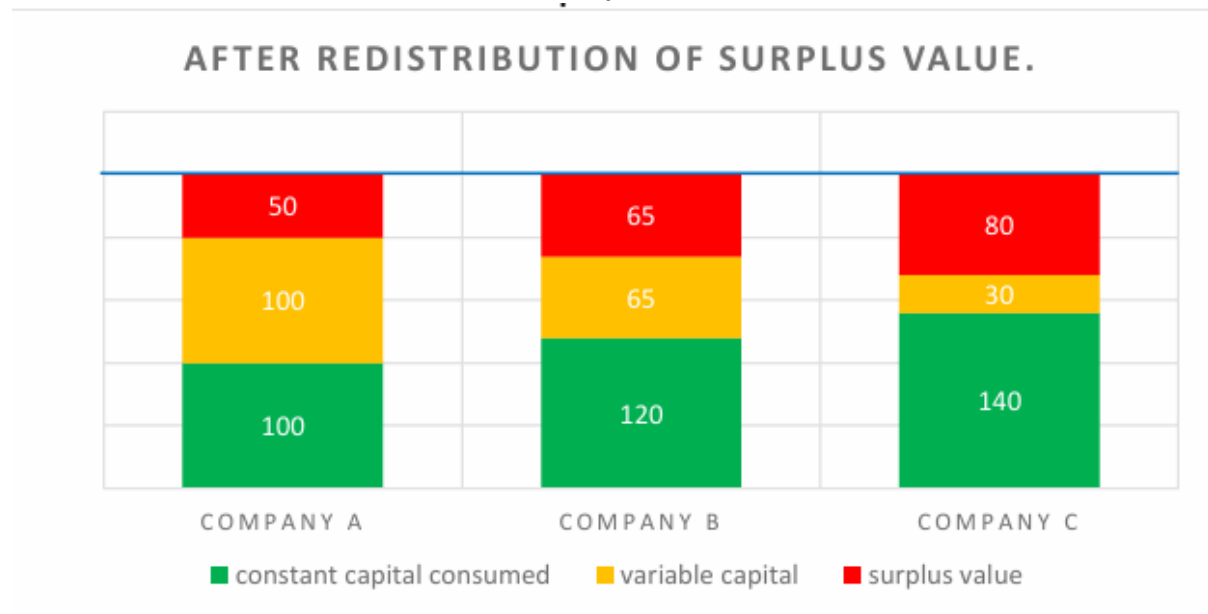
This goes unseen under the surface of capitalism. Now clearly three individual costs of production cannot give rise to three different market prices. Company A would find it difficult to sell at 300 when B is selling at 250. A would be wise to reduce its price to 250. (As Marx pointed out in Das Kapital, 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.



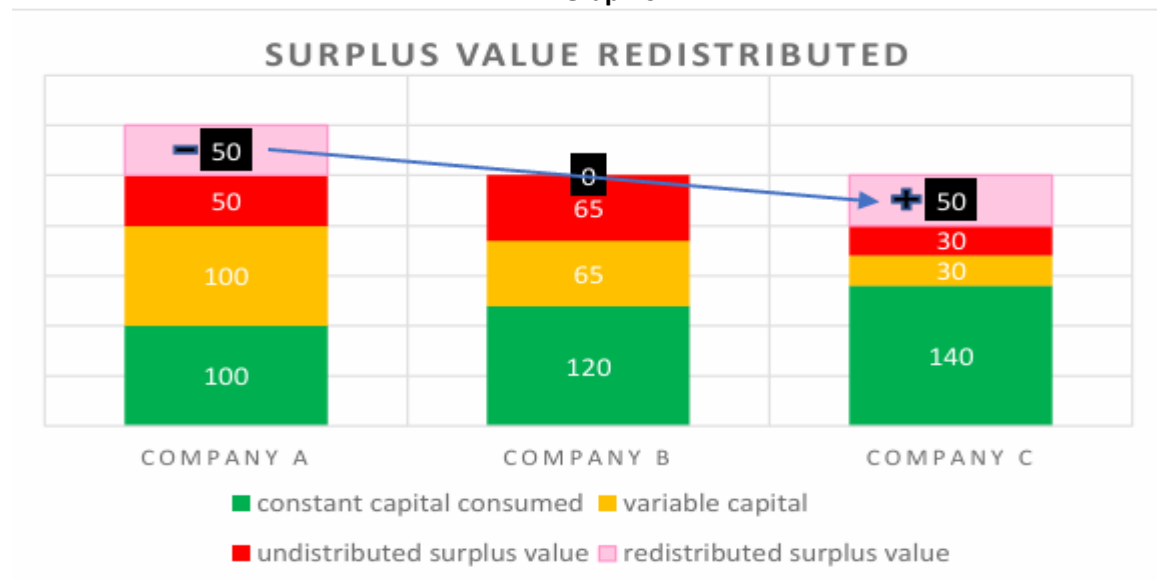
The blue line in the graph represents the selling price. We notice that A's cost structure pokes it above the line while Company C's is below the line. Effectively what is going to happen when each receive 250 is that A will lose 50 in money because it is forced to sell at 250 not 300, while C gains 50 because it is able to sell at 250 which is above its 200 costs. 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 driven by 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.

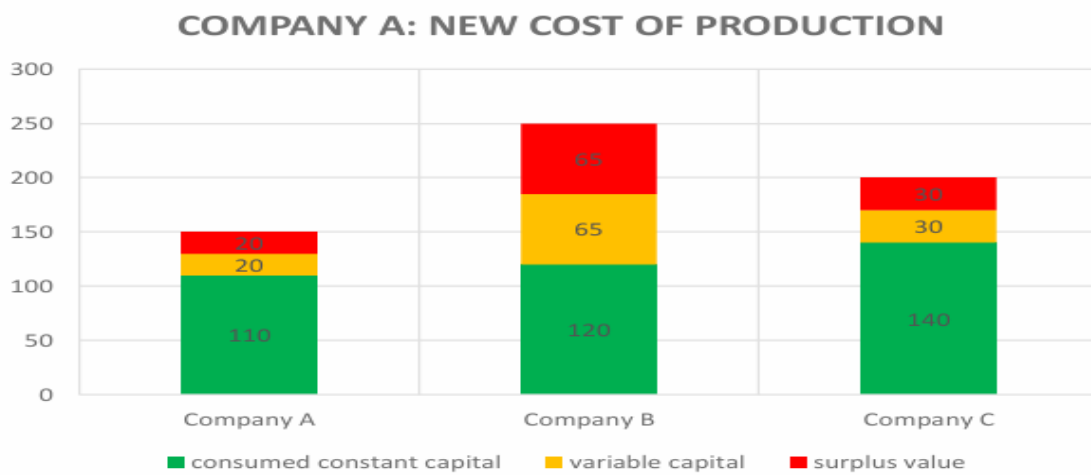
**Graph 6.**



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.

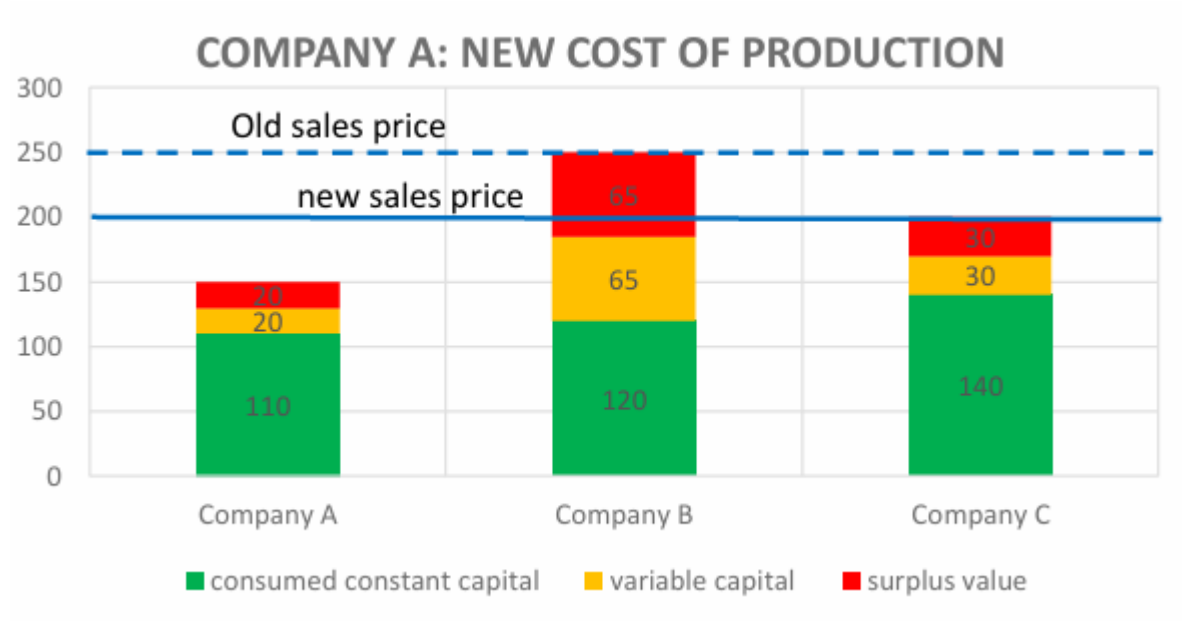
Of course, the pursuit of profit is the goal of any set of capitalists. Concerned with their loss of profit Company A decides to invest in a brand-new technique of production. This investment does not affect volumes only the costs of these outputs. Each firm continues to produce one third of the total 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.**



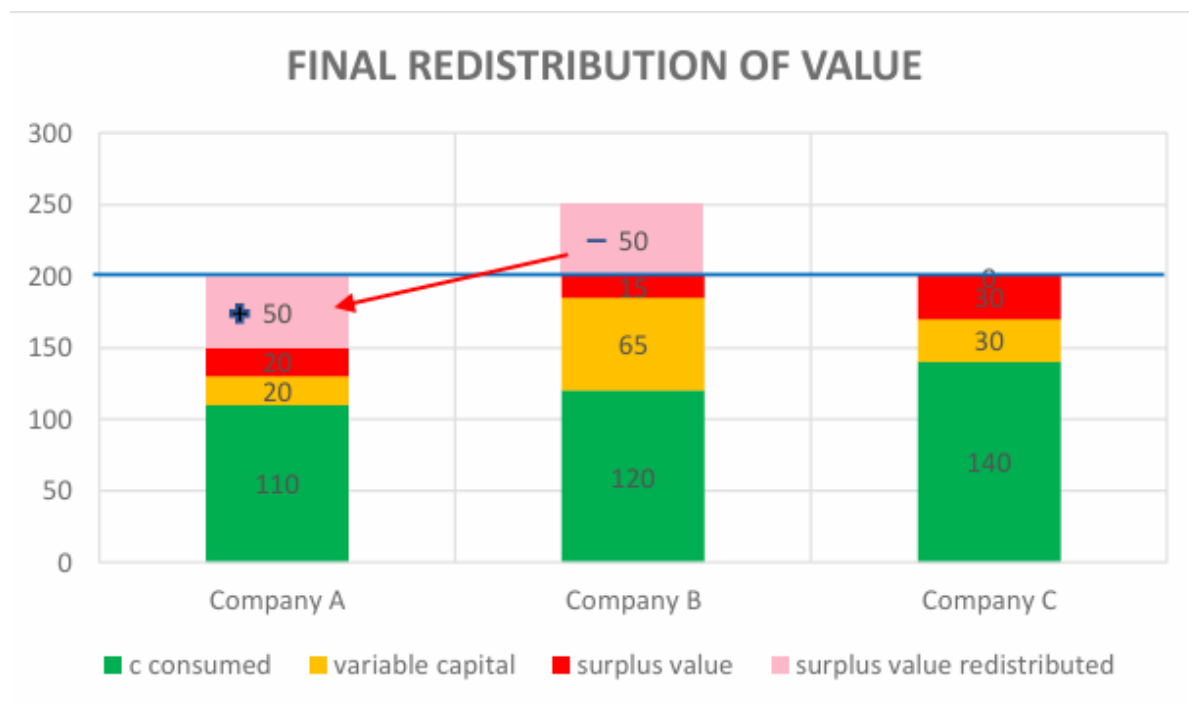
As a result of the fall in labour time in Company A, the average selling price also falls. ( $150 + 250 + 200 = 600$  divided by  $3 = 200$ ) The old selling price of 250 has now fallen to 200. We note that because of this fall, Company B's cost structure is above the new selling price while Company 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 80s 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 the above, we have assumed that demand does not affect prices, and that because this sector is of average composition, 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 reducing 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. Without this redistribution no initial investment would ever be made.

But never mind, in the end all 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. But all of this depends on exchange, 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 USSR 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.

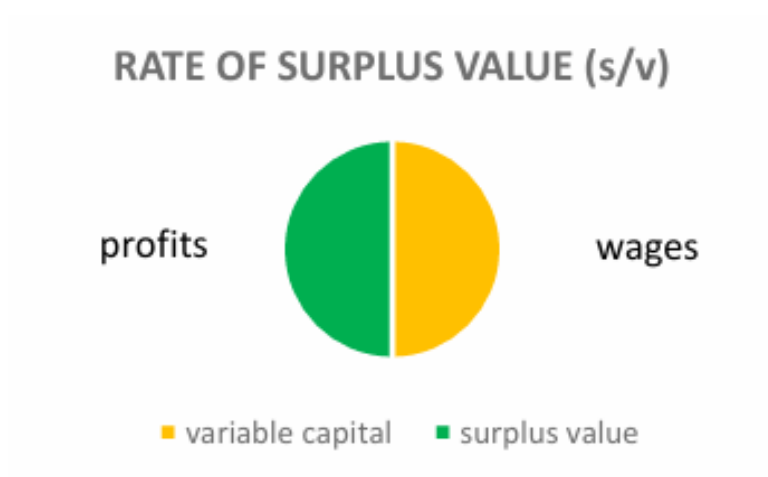
#### **THE TENDENCY FOR THE RATE OF PROFIT TO FALL.**

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 conditions in the labour market.

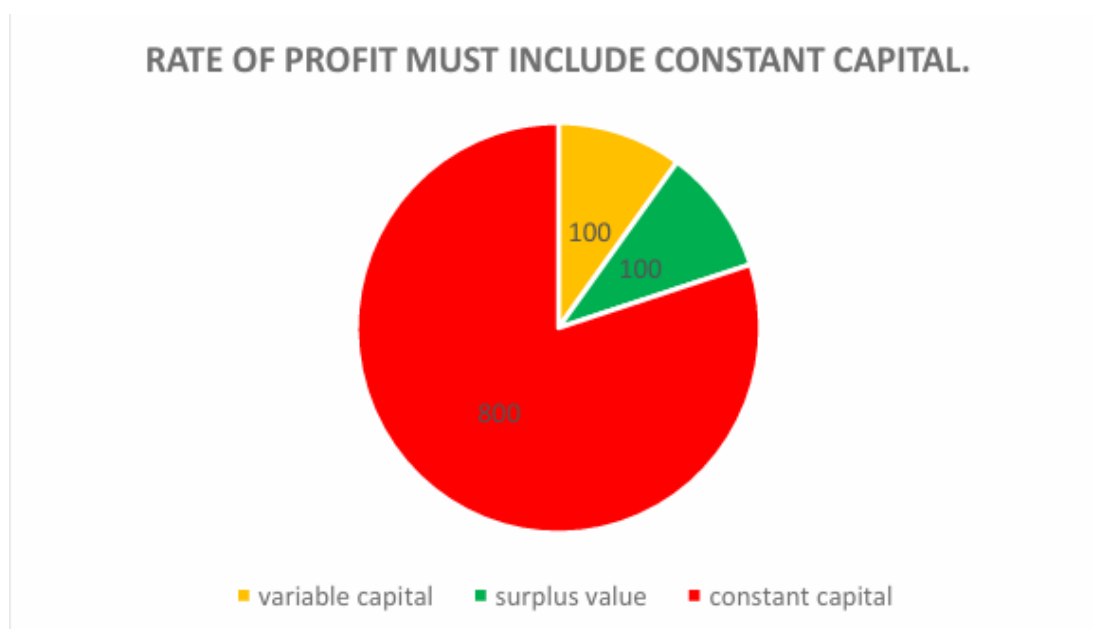
However, to this day, the shallow thinkers of the capitalist class continue to blame the falling rate of profit on rising wages. Workers on the other hand, would be fools to fall for the argument that higher wages reduce profitability. We will be delving deeper into this important question in this section. To explain the rate of profit and its tendential fall we will use a number of graphs again. Graph 10 below shows the ratio of profits to wages, or in their value form, the ratio of surplus value to variable capital. What Marx called the rate of surplus value. Here we assume a fifty-fifty split.

Graph 10.



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 degree of exploitation is good for the rate of profit because it increases the relative amount of 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/equipment and relatively fewer and fewer workers. Workers end up working with many more machines and equipment, as well as more inputs as throughput accelerates. Thus, over time constant capital outgrows the other two components as the graph below shows becoming the largest component.

Graph 11



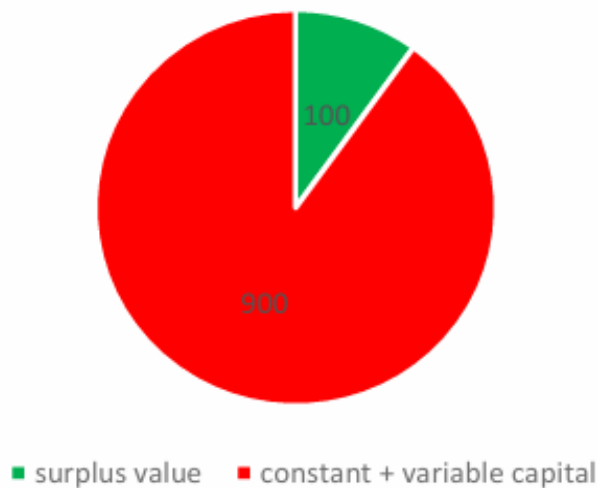
Two things stand out. The slices representing variable capital and surplus value have shrunk relatively, while the whole pie has gotten larger. It has grown from 200 to 1000 ( $800c + 100v + 100s$ ). From being 50% slices ( $100/200$ ), variable capital and surplus value have shrunk to 10% segments or  $100/1000$ . 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, the higher the value composition of capital. In Graph 11 the ratio is 800% or 800 constant capital compared 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.**

### RATE OF PROFIT ( $s/v+c$ )

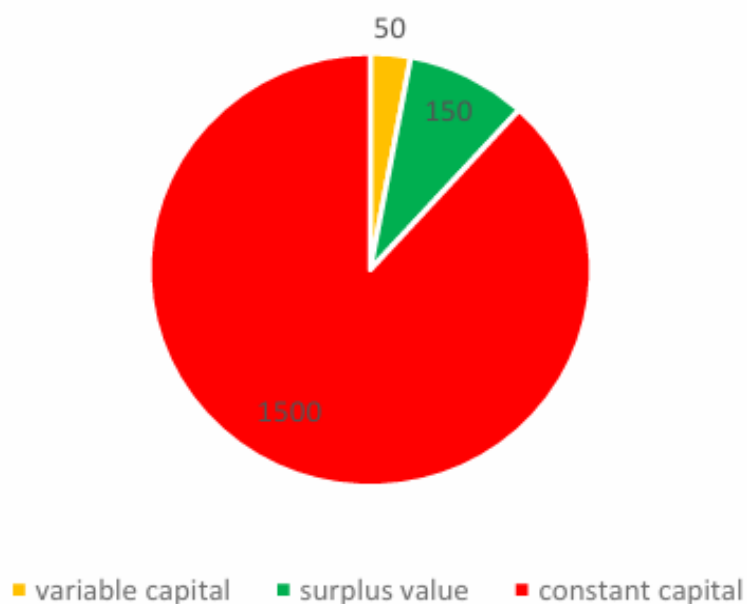


We can now see how wrong it is to use the ratio of profits to wages as the rate of profit. This ignores the biggest component of capital, constant capital. It therefore follows that the amount of capital invested can increase without the quantity of wages increasing, provided more capital is invested 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.

## FALLING RATE OF PROFIT



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 in labour saving equipment 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 redistributing surplus value.

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.

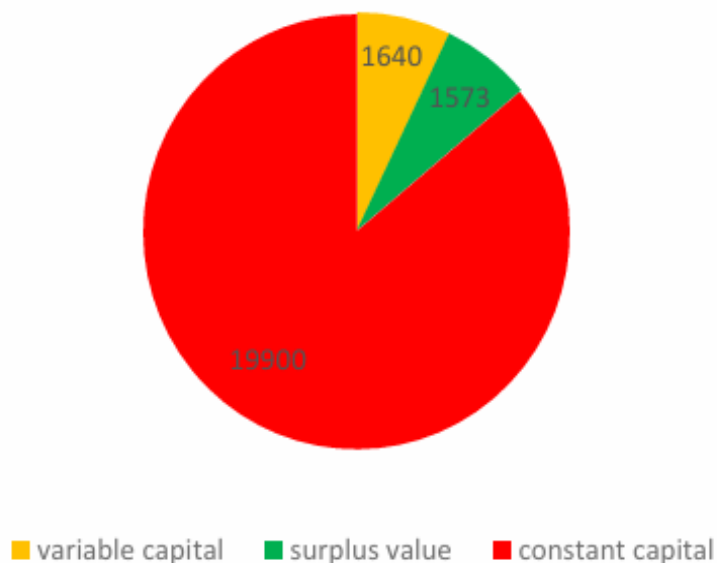
This is consequential. Any fall in the rate of profit erodes the incentive to invest. Any resulting diminution in investment undermines reproduction and precipitates economic crisis. If there is an underlying tendency for the rate of profit to fall, it means there exists within capitalism a fatal flaw,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

This much 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). (Note the use of the net surplus in this calculation as opposed to Graph 15 which uses pre-tax profits which provides a lower rate of profit. Graph 15 is the more important – the enterprise rate of profit – on which investment is based.)



Graph 14.

## 2019 NON-FINANCIAL CORPORATE DATA

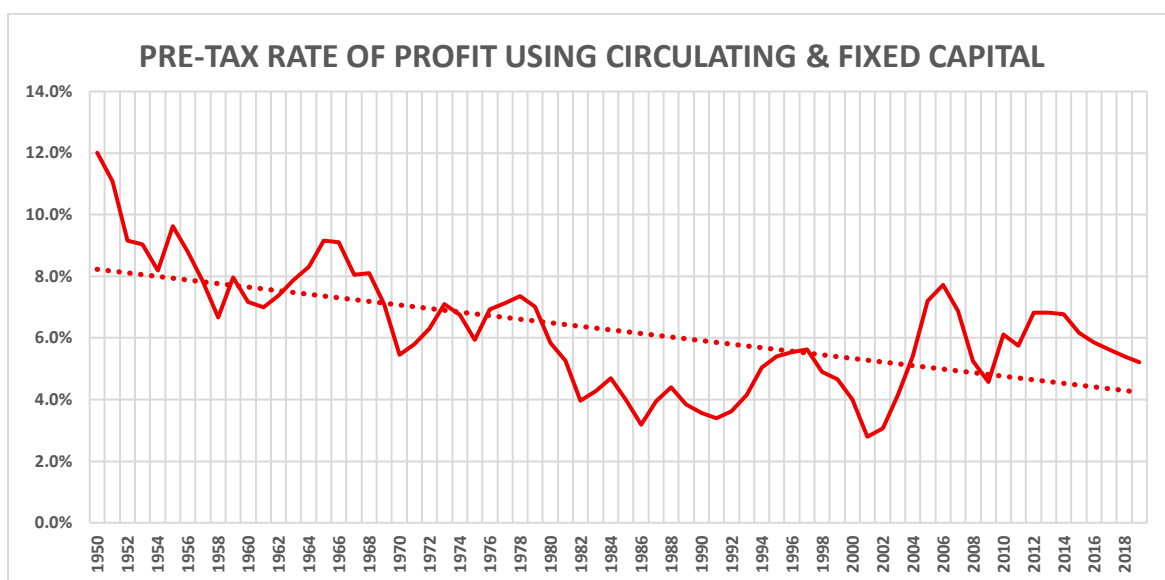


Marx uncovered this underlying tendency for the rate of profit to fall through his investigation into the rising composition of capital. As capitalism develops, so capitalists invest in relatively more means of production (constant capital) and relatively fewer workers. More constant capital means more 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 primary 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 several articles on [theplanningmotive.com](http://theplanningmotive.com) 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 2019 for the non-financial corporate sector in the USA. (This is the biggest sector yielding reliable results because it is relatively free of duplication.) Since 2015 the rate of profit has fallen for six consecutive years by a total of 24% as Graph 15 below shows, from 6.8% to 5.2% measured by pre-tax profits.

**Graph 15.**



(Sources: Fixed Assets Tables 4.1, NIPA Table 1.14 for profits & circulating capital)

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 provides it with temporary respite. To even out the peaks and troughs a trend line has been inserted. It shows the long-term decline in the rate of profit.

In conclusion. Over time, 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 CRISES.**

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 or linear 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 abandonment of essential industries 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 savagely 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 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 must 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 which 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 shedding any responsibility for the crisis. 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 communist 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 which 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.

Fourthly 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. The programme in Chapter 3 at the end of this article shows how the *common* or *social fund*, through its relative and absolute expansion, elevates the lower stage into the higher 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*". To which we may add, so too the common fund. 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". At last, 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 over 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 to maintain the myth that it is revolutions rather than counterrevolutions 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 politically conscious members of the working class within and without 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 country 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 and 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 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 present day China.

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 collective and 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 the Party 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/information 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 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 between employer and employee. Therefore, the social power of the capitalist class 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 in a market economy 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 and the bureaucracy which populated it, was voted out of office, they would be forced to 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.

For 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 is. 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 which 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. But by degrees these



differences will be ironed out for there is nothing intrinsic standing in the way of preparing objective prices – the ultimate “price discovery”.

This includes money. Money has now been transformed. Over time, 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 costs the same amount of labour to produce. ‘Money’ under socialism has no role other than to register the contribution each worker makes to production and every withdrawal from it.

These labour vouchers can take two forms. Single use or multi-use. Single use vouchers would be a receipt issued to a specific worker each time their labour is contributed. It could be issued on a weekly basis for example with a unique QR code. 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 may need to be reissued over and over again. The modern version would be individual data bases, electronic wallets, into which every contribution of labour is added and from which the price of every product withdrawn is deducted.

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 collective 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 by 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 to incentivise workers. They focus on the income side rather than on the consumption side where falling prices reward workers not only for improvements to their productivity but for associated efficiencies as well.

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 counterclaim 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. Were we to use the income side, to offer incentives to increase output, this would result in sectionalism. Each worker would seek to maximise their output upon which their income is based, even if it means shoddy output or a failure to maintain machinery to leverage production and therefore their wages.

As a result, workers further down the line will be penalised by having to expend additional labour correcting these 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. On the other hand, when the incentive is found on the price side a universal consciousness arises, a common interest emerges leading to unity not division.

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 are no longer associated with its capitalist content where it refers to part payment for the labour expended. Accordingly, total wages are 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.

If wages go up without the additional expenditure of labour, 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' so to speak. 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 these excess wages and the result will be confusion together with the emergence of a market driven by excess receipts. Prices and labour times would 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. We would fall back into market relations.

There is a final consideration regarding price. The means of production we inherit is unevenly distributed. Some factories will have more equipment; some will have more modern equipment. Productivities will vary as a result. But because the working class owns the means of production collectively, these variations cannot be allowed to reward workers differently based on their individual productivities. This is what the pricing system achieves. Because prices will be based on *weighted* average labour times, this weighting will smooth out the differences in productivity ensuring that all workers receive equally regardless of their individual productivities. Hence the pricing system makes collective ownership real rather than a mere slogan.

The capitalists may boast that price discovery is genuine under capitalism. That only at the intersection of demand and supply can prices emerge which informs and directs investment. Emancipated workers would take a different view. Under capitalism, the prices that govern - what Marx called market prices of production - are those prices which 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 and erratic prices of capitalism. The pricing system of socialism is immeasurably higher than that of capitalism, for here for the first time, the actual cost of the labour expended 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 collective effort through falling prices. The second is the reward for individual effort which 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 with the intention of breaking 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 worldwide 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 this observation has two flaws. It uses utility to price labour, and it ignores how much

labour is needed to train skilled workers. 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 morning runs. Generally, it is intellectuals who balk at the proposition that workers' contribution to production differ. Workers engaged in production recognise the limits of their contribution and are aware that the whole production process depends on the more skilled workers.

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 police and 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 average will then form the measure for the expenditure of labour and at the same time it will be the basis for costs in production and prices in distribution. 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 costed 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. 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 0.7bn 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 to use a malleable currency, for without it, there could be no false accounting. It was this false accounting that allowed the bureaucracy to hide their parasitism. They could no more introduce an honest rouble than 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 reward. 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, poor consumer goods, all 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 largely be met and even exceeded, even in crude material terms. 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 provided it could be manned by additional 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. Provided 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 were quicker to produce. (Source: Hillel Ticktin)

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, it's impossible to 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 through fictitious prices.

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, to balance the state budget. Prices 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 in effect Piece Rate Planning pure and simple.

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.

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. Accordingly their wages had to be suppressed through inflated prices, a form of rationing this inadequate supply.

### **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 shorthand 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. Worse the whole emphasis was on the size of the margin not on the remuneration of workers.

Marx recognised that ending exploitation necessarily ended margins. In a society of workers, it was the working class who now 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. He called this the *common fund*.

To pay for this common fund, 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 allowing no room for margins.

It is the workers who then decide collectively to set some of it aside for the purposes outlined above. So, what appears at first sight to be merely a formal difference, deductions versus additions, really expresses different class relations and differences as 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 severe 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 remained 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 was 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 guided production, 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) represented an error added to an error, or an error compounded. The best book which describes the pricing labyrinth in the USSR is William Jefferies *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 mean 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. When preparing the new plan, enterprise managers would be asked to prepare output figures. They would often 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 more than a charade, it was guerilla warfare, which 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. Piece rates remuneration also applied to them.

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 rate remuneration is 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 under these conditions 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 driving 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 this damage 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 thoroughly 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. The question of degree does not replace actual analysis.

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 to make profits and when it cannot make profits, it stops producing, even if this means closing numerous factories in the process, even if this means a loss of capital.

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, causing other plants which depended on this electricity 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, no buffers allowing enterprises the opportunity and time to change the way they produced things. Time out, was seen as 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 the [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.

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. Indeed, profits would hasten the collapse of the USSR, not because they fell, but because from inception they would be counterproductive. This was never understood nor included in the debate between Harman and Manel.

We saw earlier in Chapter 1, in the section on unequal exchange that profits depend on exchange and particularly 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 backfires. Instead of reducing labour time it ends up increasing it.

This startling observation is easily demonstrable. This ease is due to relations of production in the USSR being more transparent than in a capitalist economy. Which makes it difficult to explain why it took 80 years for anyone to understand why profits were alien to an economy based on production for use. Marx's core method of categorising a mode of production, can be summarised as the way in which the labour of the individual becomes part of the labour of society and the way in which this labour is appropriated.

In the USSR production was no longer for exchange, for the market. Instead, it was production for consumption or use. The outputs of one plant immediately became the inputs for another plant as directed by the plan. They did not need to be exchanged though on the margins barter did take place. In sum, the labour of the individual worker became part of the labour of society directly, though this labour was appropriated not by the worker but by a hostile and antagonistic state. It is this twin character of production that is unique to this economy, characteristics found nowhere else, which is why the economy in the USSR deserves to be called a distinct mode of production. 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 no commensurate one-off rise in the wage fund which would 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" through reducing inputs and employment. (The alternative, of allowing Enterprises to set prices would have resulted in immediate hyper-inflation.)

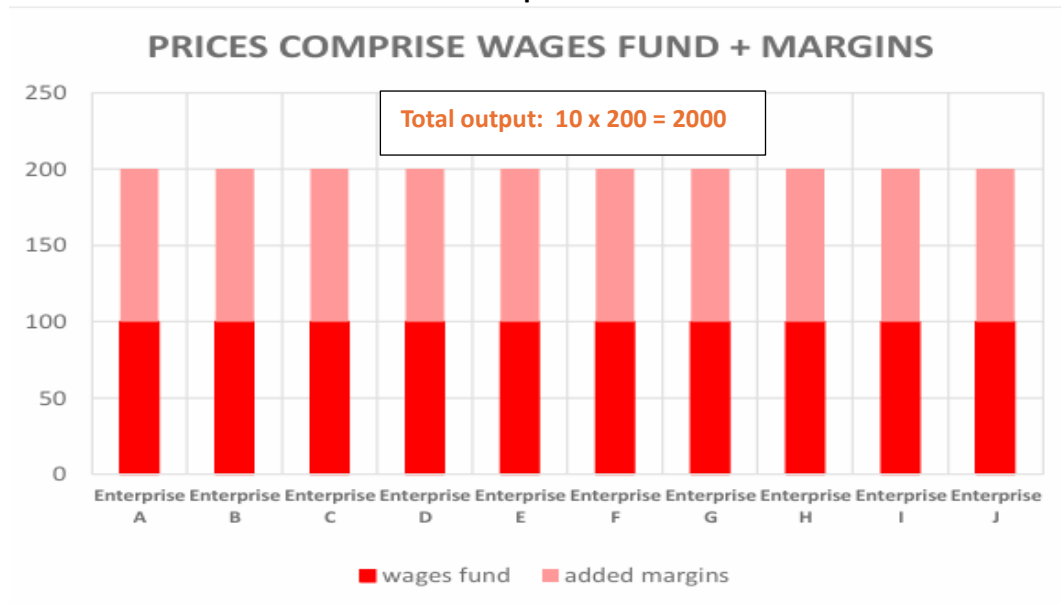
One of the side-effects of these new measures was to give the planners a deeper insight into the finances of Enterprises. This had been previously obscured by the unending guerrilla warfare between plant managers and planners over the issue of setting physical targets. Enterprise managers to their regret 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 1967 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 measured by labour time. Historically the prices at which their products circulate has been set, not by the wages fund alone, but by the margins needed to fund the 1965-66 state budget added to the wage fund. If the state budget is set at 50% of the economy, then it follows that a margin of 50 must be added to the 50 for the wage fund, equal to a margin of 100%. ( $50/50 = 100\%$ )

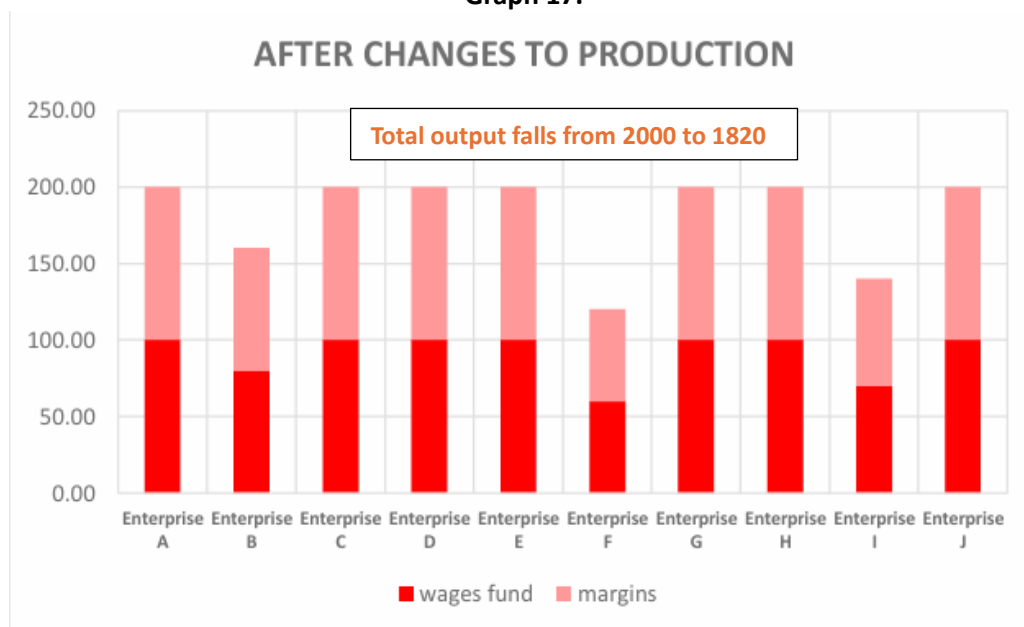
This was then apportioned over the physical output, generally emanating from what Marx called Department 2, or the production of articles of consumption, so that the price of each product contributed a share to the fund as well as the state budget allowing for the distribution of the articles of consumption upon which worker and bureaucrat depended. In all cases, each enterprise contributed 5% to the wage fund and 5% to the margin making 10% or one tenth of the total output. (It is not important to distinguish within the margin whether the margin is a tax or profit margin.)

**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.

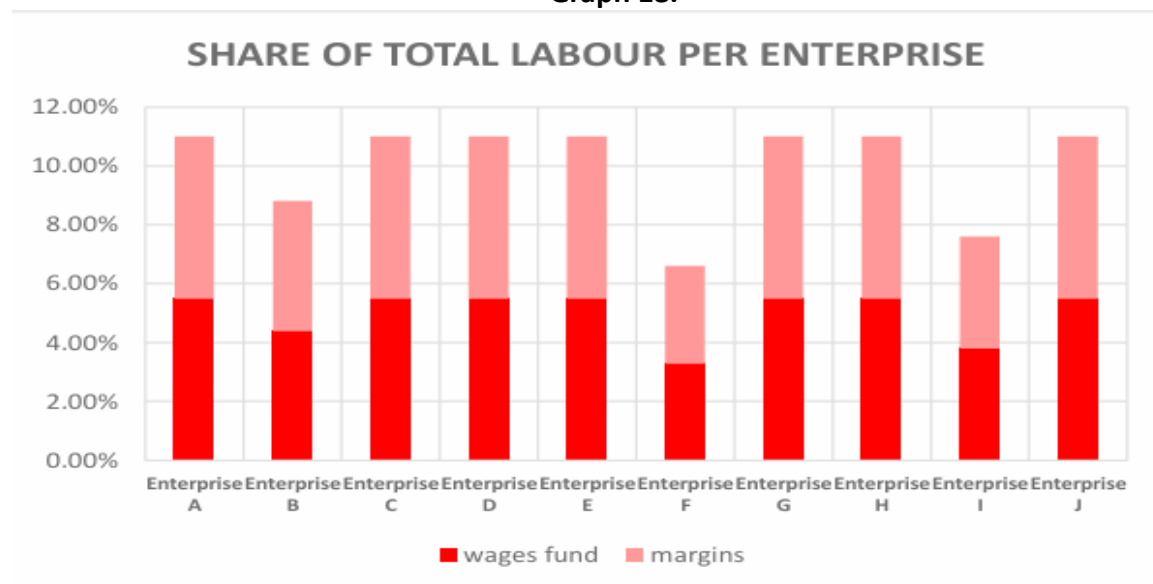
**Graph 17.**



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.

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 50 yields 50 Roubles but only 40 when measured over a cost base of 40. As the enterprises reduced their cost base, they also found it yielded less profit income for themselves and the state. This was the case because margins were fixed in percentage points for each industry to ensure a guaranteed income stream for the state budget

The introduction of 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 cost base but increasing them to increase their income. This may have seemed perverse, but it was entirely predictable. By raising the cost base over which their margins were calculated, enterprise bosses were in effect increasing their share of the labour time of society, thereby increasing their profits.

The reality is this, any increase in efficiency in a socialised economy, measured by profits, would see the mass of those profits fall immediately. This is merely a reflection of the fall in labour times, both paid and unpaid, or what is the same thing their share of the labour time of society. 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 through the redistribution of surplus value through unequal exchange and via the medium of money. 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 incentivise society. When this happens, it does not matter if the “enterprises” share of the labour of society is reduced affecting its margin income. What is decisive is that the labour time of society is itself reduced, which is then expressed as a fall in general 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. Here then in its simplicity is why a communist society is free of crisis, it’s all in the price.

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. Here the incentive was to increase the enterprise’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, instead of being abolished have been prioritised, there is an incentive to duplicate rather than innovate. Through duplication there is no reduction in labour times nor a reduced 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 with all the associated teething problems. These disruptions are worthwhile in a capitalist society because the resulting efficiency is rewarded by 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 true 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 novel 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 even though the USSR developed excellent science and technologies together with an educated workforce. In many areas they led the world. However, the lack of a systemic incentive meant industry remained unreceptive to most of these innovations.

As soon as profit was found to be counter-productive the bureaucracy reverted 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, because 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, but it would also have led to the concentration of economic power in the more efficient enterprises. As economic surpluses accumulated in the more 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 and share profits with the more efficient ones. 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 to the less efficient producers. The surplus controlled by the centre began to haemorrhage and with it the ability to finance the state budget and plan.

We may therefore sum up. Under capitalism the profit motive leads to innovation while in a planned economy it leads to replication. The need to maximise labour time explains the peculiar economic forms found in the USSR. 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 counterproductive.

What the collapse of the economy in the USSR showed is that there can be no viable exploitative economy after capitalism based on margins. 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 as well. 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 behind the major capitalist economies, the bureaucracy found itself helpless. As we have seen profitability was counterproductive, taxation was no substitute and honest accounting out of the question. Financial Planning like transparent pricing was not an option. It required a democratic society devoid of sectional interests and antagonisms, and it requires a committed and dedicated 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



to advance. Conscious planning requires 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 mediated. 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 managed 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.

### **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 often inferior, unfashionable and many times unsuitable.

The Soviet Union gave planning a bad name. It was not the authoritarian centralisation of the plan in the USSR that made planning impossible. Instead, the problem was that the plan was imposed on society from above which 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 become possible

Workers will convey their consumer preferences to the planning bodies. The planning bodies will then 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 who are active instructing the planning bodies what to produce. This means planning will be involving, empowering, dynamic and invigorating.

But more, this liberates the planners from deciding what to produce. They can now concentrate on how to produce it. This generates efficiencies making planning possible, preventing the planners from wasting most of their day arguing over what to produce.

The planning agencies will be administrative bodies and not state bodies which 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 get 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 production price is limited to the cost price of producing 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. Take the hidden cost of pollution. The current unpaid cost to the world economy of pollution is over \$5 trillion (World Bank 2016 report). If this unpaid cost was accounted for, 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.

However, there will be no employers nor employees. Here an analogy will suffice. Today when a worker is employed, they are not re-employed every day unless they are very unfortunate. Instead, they are provided with key cards granting them access and job descriptions outlining their tasks for the duration of their employment. Similarly in a socialist society, the producers will be presented only with job descriptions nothing more, job descriptions set out by the planning bodies and refined by the works or plant committee. What they won't be given is an employment contract. The right to work forbids hiring and firing.

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.

#### **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 in its developed form 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 weighted 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 producing this specific product.

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 all the mediations lost. 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 economising 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. The bureaucrats in Russia now turned capitalists and their heirs will find their problems have not ended, they are just beginning.

### **CHAPTER THREE. PROGRAMME & PERSPECTIVE.**

The capitalists claim socialism is impossible for one fundamental reason. It expresses human nature – the competitive individual. But how can this be? In the capitalist system there are two distinct individuals, the exploiting individual and the exploited individual. How can the exploited individual express their individuality when they are forced to work free, gratis, for 27 years of their 45 year working lives.

No, it is socialism or the lower stage of communism which truly expresses the individual. The individual who works for themselves for the first time in ten thousand years by receiving back exactly what they have contributed to production. The worker no longer disempowered by private property in the means of production but now empowered by collective ownership. The worker no longer the subject of decisions made for them and imposed on them, but the worker now in control, an equal amongst equals.

This is what true individuality looks like not the parody paraded by capitalism. True individuality only emerges with the abolition of classes. And it is this individuality that is no longer at odds with society, which is catered for by the essential *Draft 21<sup>st</sup> Century Communist Manifesto* below.

## **A DRAFT 21<sup>st</sup> CENTURY COMMUNIST MANIFESTO.**

### **Preamble.**

Capitalism is the first, but not the last industrial society in history. This remarkable but cruel mode of production beset by recurring destructive crises has its feet in the era of the horse drawn carriage and its head in satellites orbiting planets and even exiting our solar system. What took months now takes hours, what took the efforts of thousands is now accomplished by a handful and what took days to communicate now takes microseconds. In every way capitalism, this inescapable, inevitable and necessary step in our economic emergence, has laid the foundation for a future and equitable mode of production free of crises.

The banner of socialism is yet to be unfurled, let alone hoisted proudly high as once it was before the fall of the USSR. The USSR is used to smear communism, used to proclaim the supremacy of capitalism, used to warn workers not to seek any alternative to capitalism. Within the left, groups like the SWP characterised the Soviet Union as capitalist while on the other extreme, groups like the old Communist Party of Great Britain actually saw it as a form of socialism.

It was neither. It was not capitalist, because due to the absence of markets, the labour of the individual worker now became part of the labour of society directly and immediately. And it was not socialist because that labour was expropriated by a parasitical bureaucracy using the levers of an oppressive state. It was in reality a socialised economy negated by exploitation therefore doomed to fail. By alienating workers, it was further away from socialism than it was from capitalism which is why it decayed back into capitalism in the late 1980s. Unless the social nature of labour in the USSR is fully understood, the contradictions that felled it remain incomprehensible.

It is probable that as the ideological struggle matures and advances, the history of the USSR will be resurrected once again by the ideologues of the capitalist class and used to intimidate workers. But even if they do not, then we must, for unless we learn from the USSR, this first example of a post-capitalist economy, from its mistakes and crimes we will be less prepared for the future. We owe it to the workers and all those who suffered at the hands of Stalin and Mao never to repeat these mistakes.

### **A necessary synthesis.**

This short programme stands on two legs, firstly it embodies the history of the USSR, and secondly, it overlays these lessons with the *Critique of the Gotha Programme*. It is common knowledge that the *Critique* was a polemic which Engels encouraged Marx to tone down. Because it was polemical, rather than pedagogical, much of the consequences of what Marx wrote, needs to be drawn out.

Two elements stand out. The first is the distinction between organising the social fund (*common fund*) and democratising planning. This has led to much confusion on the part of every Marxist organisation. When they talk of committees, delegations, interest groups helping plan production, in reality they are referring to what occurs within and around the social fund, not planning.

Planning is based on individual choice, hence the term 'consumer led planning'. Individuals give of their labour and are rewarded by the products of their choice. It would be intolerable were their choices to be filtered by committees etc. Rather their choices are sacrosanct. This workers' right is also higher than the freedom accorded to the moneyed consumer in a capitalist society, because while these consumers are free to spend their money at will, the commodities available for purchase have themselves been filtered by profit, by a board of directors and if not by the board, then certainly by their marketing department. In the case of consumer led planning, the producers are in charge of what will be produced currently, and they decide what can potentially be produced in the future.

Any interference in this form of planning by committees, elites, the state or whatever, will be justifiably rejected by workers as arrogant and paternalistic.

Secondly, it is the social fund that links the lower to the higher stage of communism. Recognising that this fund expresses the collective will of society satisfying social need, the time will come, where it no longer absorbs a minority of the social product but a majority of it. At that point, more of the social product will be used to satisfy need rather than individual want allowing society to legitimately inscribe on its banner; *we have arrived*. The social fund not only elevates society but secures its future by providing the resources needed to restore the planet. And yet the potential and the role of the social fund has hitherto not been recognised.

When Marx discussed the deductions from the social product for this fund, he used it polemically against Lasalle, to declare that the consumption of the undiminished fruits of labour was a myth. His only other comment on the fund was to recognise that it would grow relatively and absolutely as society's productive capacity swelled. What was not discussed in the Critique, was how the inclusive decision-making processes leading up to these deductions and their disposition, constituted the bedrock of working-class democracy in a future society. This programme remedies this, first by drawing the line between planning to satisfy individual wants and needs, and secondly to understand the role played by this fund, whose importance has escaped so many.

Finally, this programme avoids discussing the structure of the workers' state which has pre-occupied so many Marxists, for example the regular elections of officials who are now working officials, their recallability, their pay and so on. Instead, / this programme discusses the political content of the workers' state, what the state is allowed to do and not allowed to do. In many ways the content rather than the structure of the workers' state is the more important because no matter how tightly structured, a worker's state which rises above society and decides on behalf of society will become oppressive stepping on the rights of workers. This is the lesson from the USSR where the state was a law unto itself.

In every way, this programme marks a dividing line between those Marxists who continue to argue for the leading role of the workers' state and those who argue for a rights'-based approach which limits the state to enabling and policing these rights and nothing more. The result is a workers' state which is not allowed to decide what will be produced, nor how quickly, nor at what price, nor what workers can earn, and which is not allowed to levy taxes or any other margins with the purpose of dispossessing workers of their labour.

We have to be crystal clear. Our vision for the future has absolutely nothing to do with the kind of ruthless bureaucratic and exploitative regime that existed in the USSR. Humans succeed and proceed

by learning from their mistakes, and this programme exemplifies that process. At a time when capitalism can no longer reproduce itself except at the expense of society, when a hegemonic economic struggle once again threatens world war, with a planet over-heating and robots stealing jobs, this programme shows that society has a future and that it is worth fighting for.

**PRINCIPLE 1. The abolition of the private ownership of the means of production, distribution, information and the land.**

Private ownership of the means of life - the means of production and the land - is the essential condition for disempowering workers making possible their exploitation. It represents the fault line in society, the class divide forcing workers to work for the owners of these means. Nothing can be achieved until workers are re-united with their means of production bringing classes to an end. This is the essence of true democracy and its realisation. In a society divided between those who own and do not work and those who work but do not own, democracy will always be partial, superficial and precarious.

A common misconception is that private property is replaced with public property. Public property or state ownership is but a mere legal and transitory stage to non-ownership. It is the gathering in and collectivisation of all the individual threads of private property now used to weave the cloth of public property. In turn the workers' state as the temporary legal custodian of the means of production and the land is not allowed to offer title to it, to cede it, to extract a rent or to redistribute it in any form. In the hands of the state, property becomes fossilised.

State ownership thus puts an end to property. When it is commonly recognised and accepted that we all own the factories, the shops, the ships, the land and so on, then it has to be recognised that no one owns it. It ceases to be property; it becomes unowned and with it the purpose for the state ends - the protection of property. In the future we will see the means of production for what they are - proud achievements of our combined labour. The only "no entry signs" will be those found mounted in museums, representing a time when property dominated labour. Hence in proportion to the successful development of the socialist economy and its distancing from the remnants of capitalism, together with the ending of property in production, so withers the state.

A strict distinction is drawn between the means of production and the articles of consumption. Articles of consumption are and will remain personal property. This includes homes. Homes are not means of production, but they are the personal property of those who live in them. The fact that they are the most durable and costly of the articles of consumption and that they form the social landscape is irrelevant. The right to one's own personal home is a socialist right.

Socialism makes no distinction between homes that were previously rented or previously owned. Rents just mean occupiers have paid off the mortgages of their landlords rather than their own mortgages. All properties lived in become the property of their occupiers with the exception of the mansions of the rich and second homes which will be confiscated and redistributed. However, because homes vary in size, quality, and location, a "home's tax" (the only tax found in a socialist society), will be levied for the purposes of upgrading homes, building new ones, replacing dilapidated properties and transforming the locality with the participation of all its inhabitants. This will be a differential tax with larger and better properties paying a higher rate than smaller and lower quality properties. It is

thus an equalising tax borne out of the uneven housing stock inherited from capitalism. The term tax, rather than rent, is used to signify an end to the relation between tenant and landlord.

## **PRINCIPLE 2. Subtractions from the social product not the addition of margins.**

In his *Critique of the Gotha Programme* (the programme adopted by the newly emerged German trade union movement): Marx criticised the Lasallian concept of “workers being entitled to the fruits of their labour”. In all surplus producing societies not everyone works to produce things. There are the young, the elderly, the sick and infirm, and those who look after them, educate them, heal them, together with those involved in administration and planning without which society cannot function. If the producers consumed what they produced, there would be nothing left to support all those sections of workers standing outside production itself. Nor would there be the funds needed for new and additional investment to expand production and thereby elevate and transform society.

Accordingly, Marx demonstrated that a part of the social product (*the aggregated fruits of our labour*) would have to be deducted or be set aside to support these necessary and humanising functions. What he called the common fund, but which is here described as the social fund. At the time he wrote these words, Marx could have no inkling of the importance this criticism would have when applied to the Soviet Union and China half a century later. Here instead of a portion of society’s product being democratically *deducted* by the producers themselves, the Stalinist bureaucracy claimed this product by the coercive *additions* of tax and profit margins behind the backs of their workers.

At first glance the subtracting of a portion of society’s product instead of the arbitrary adding of margins may appear to be semantic. It is not. It expresses different relations of production, it speaks about who owns and controls the social product, and it expresses the presence or the absence of working-class democracy. All exploitative societies are marked by the presence of margins, which always and everywhere are the means of exploitation. Margins are possible only when workers are under-paid for their labour creating the space for margins. Within capitalism this takes the form of cost price plus the profit margin. In the USSR it took the form of the wage fund plus the tax margin and later profit margin. In this way workers were and are left with only a residue of what they have produced allowing the capitalists or the Stalinist bureaucrats to live off the rest.

In a genuine socialist society, it is the producers who own the social product. It is the workers who then decide how it will be consumed. It is the workers who decide how much has to be set aside for social needs and new investment. Only the workers who produced this social product either directly or indirectly have the right to decide on its disposition. Therefore, this setting aside, can only take the form of a deduction because the producers are in effect voluntarily giving up part of their product for social need and for the expansion of the economy.

Deciding on the scale of this deduction and the use to which it is to be put is complex. It will be a decision which is compounded on the one side by what is possible and on the other by differing priorities. As with the rights discussed by Marx in his *Critique*, the scope of the social fund cannot rise above the economic structure of society so inherited. Some groups may propose that repairing the planet as quickly as possible is needed, others may argue that reducing the inequality between nations as quickly as possible is needed, yet others may argue that raising all to the skill level of the highest as quickly as possible should be the priority. There is no right or wrong answer to these competing needs.



There is only the democratic resolution of these competing needs. The right of all to put their case, the absolute freedom to communicate the merits of all positions without prejudice and more importantly the freedom to criticise the position of other groups, will precipitate a hive of debate resulting in the adoption of broadly correct positions. Television which was used to dupe and dope the masses is now used to debate, to inform and to broadcast diverse views. Instead of being the opiate of the masses it is turned into its opposite, the liberating tool for knowledge and empowerment.

This vibrant collective decision and agreement on the scale and direction of the deductions from the social product is the epitome of working-class democracy. It is the defining moment and the political hallmark of a socialist society. Removing this control from the working class means removing the right of the producers to decide what is to be done with the product of their labour. It presupposes the reintroduction of oppression. It would gut socialism and lead to its failure. To assume that there are privileged or more educated members of society, inside or outside parties, better able to decide above the heads of workers, will disempower workers and destroy their attachment to production. That is the lesson of the USSR. We are against any elitism just as we are against those “Marxists” who believe, that simply because they have raised themselves above the sectional interests of the working class, they are ideally placed to decide what is best for our class.

To ensure that the deductions are not misused or used for personal gain, those employed in its administration may not receive more than the “average” wage. They may not work permanently in this sphere. Finally, there must be complete transparency. Workers’ law will be strictly applied in this sphere and vigorously policed. The workers state’s function is limited to setting up these democratic structures, to ensuring their freedom to operate, and finally to police the disposition of the agreed surplus to prevent fraud. It has no powers to decide on the level of deductions nor their disposition.

### **PRINCIPLE 3. Workers’ control and management of production.**

In a society divided between those who own but do not work and those who work but do not own, the producers have to be managed and led. Despite this general rule, companies like Toyota, discovered productivity shot up when they delegated control of production to the shop floor through 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.

In the 21<sup>st</sup> century most workers are literate and numerate, unlike their counterparts 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’ management stands and falls on one tenet alone – the setting of the intensity of work. Without the right to set the intensity of work, workers’ management is reduced to mere phraseology. Under capitalism intensity is set by competition and mediated by the level of class forces. One of the central goals of the trade union movement has thus been the struggle over the tempo of work. In the USSR, the intensity of labour was enforced by state terror.

In a socialist society, intensity is not set by an external coercive force like competition or the state but by voluntary agreement that becomes collective and accepted across the industry. Such a collective decision will require debate within each production unit and discussion between units and countries. Its resolution is a democratic one and once it is agreed it is binding on every worker. The workers' state is reduced to setting up commissions for this purpose and once done is reduced to only policing the agreement protecting it from abuse. Such discussions are revisited from time to time in the light of technical developments.

Once the intensity of work, adjusted for capacity, has been agreed, labour time becomes universal and is therefore capable of being costed. It is these concrete hours which the planning bodies now work with when allocating or apportioning the labour time of society. Just as the planning bodies do not have the right to decide what it is to be produced (see section on consumer led planning) nor do they have the right to decide how quickly (intensity). This prevents the antagonisms that existed in the USSR where the planners set the pace of work resulting in guerrilla warfare between them and enterprises and industry.

All studies of work occupations reveal that occupations based on physical strength alone, have disappeared more quickly than any other. Forklift trucks, power steering, power tools and pneumatics has voided differences in muscle power. Today a large man is no more productive than a small woman when working with this equipment. Hence physical differences in capacities no longer constitute an obstacle to homogenising intensity.

Moreover, three negative results flow from this individualising of intensity. Rewarding the intensity of labour would reopen the gender gap. It would disadvantage older workers. And it would require an army of overseers to witness and tabulate individual contributions based on intensity. Finally, as we shall see, rewarding intensity in the USSR was a disaster. On the point of rewarding individual intensity and only this point, is there an error in the Critique.

However, workers' management on its own will not prevent exploitation re-emerging. That requires working class control of the commanding heights of the socialist economy or as it has been put in Principle 2, 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.

#### **PRINCIPLE 4. What workers contribute to production or society they receive back after deductions.**

Under capitalism what workers produce is owned by the capitalist class who reimburse workers only partially for their production. The balance, their unpaid labour, forms the rent, interest, profits, and tax of the capitalist class. Socialism replaces working for the capitalists by working for one-self. What each worker contributes, they receive back after the collectively agreed deductions for social need, administration, and additional investment.

This equal right is necessary to unite a working class divided by unequal skills. More skilled workers who contribute more to production will receive back more than less skilled workers who contribute less. If all workers were to receive an average return this would require an unequal right, as the more skilled workers would receive less than they contribute, and the less skilled workers would receive

more. This unequal right would be divisive and require the continued presence of a state to enforce it, replacing the voluntary and collaborative association of workers by policing.

This programme is a programme of principle not of detail. However, it is recognised that as the capitalists and their retinue consume over half of the current output of society, their expropriation creates the conditions for the immediate upliftment in the standard of living of all workers. Further it is recognised that wage differentials under capitalism are widened by the demand and supply of labour with different skills. This ends under socialism, ensuring the hierarchy of pay is diminished.

Alongside the right to receive in proportion to contribution arises the end to the artificial and ideological separation of production and education. Its ending represents financial independence for the young on the one side, and “free” lifetime learning on the other. Shorter working days will no longer be based on the barring of workers from education nor on the barring of the young from safe rewardable work. This together with the redesign of the work process to progressively eliminate the division between physical and mental labour will have as its purpose, the elevation of all workers to the level of the highest.

If we were to define the features found in the higher and later stage of socialism - communism - it would have the following twin characteristics; firstly, the elimination of the vertical division of labour and secondly sufficient abundance so as to bring to an end the miserable calculation of one’s own personal contribution to production. At that point society will no longer be divided by production but united by it, allowing for the emergence of purely personal relationships no longer contaminated by economic considerations.

#### **PRINCIPLE 5. The Rising Profits of Capitalism is Replaced by the Falling Prices of Communism.**

Under capitalism the law of value prevails. It represents the elastic relation between market prices and actual costs of production allowing prices to reward capitalists with a profit in proportion to the sum of capital they have previously invested. The purpose of prices under capitalism is to redistribute profits. With the abolition of the private ownership of the means of production, distribution, and information together with commodity production, ends the law of value. It is replaced by prices being directly connected to actual costs of production. The prices found in the realm of consumption reflect weighted average labour times.

Weighted average labour times, the basis of universal labour time, recognises that workers work with different means of production, some of which are more modern, others less so, and they work with different quantities of means of production. Consequently, their productivities differ. But because the working class own the means of production collectively these variations cannot be allowed to advantage one group of workers against the other. By creating a pricing system based on weighted average labour times, a communist society ensures that these variations are cancelled out and no worker is disadvantaged.

Higher productivity and efficiency leading to reductions in labour time are now rewarded immediately by lower prices in the sphere of consumption. Falling prices are therefore the reward for collective labour, while the right to receive in proportion to contribution (after agreed deductions) is the reward for individual labour. Together they form a unity.

The capitalists have always hated and lied about deflation saying that it delays consumption. The opposite is the case. Every mass market, from the motor car, to flying, to electronics has been preceded by the cheapening of the commodities so described. Instead of delaying consumption, falling prices has allowed the market to grow leading to further economies of scale. The real reason the capitalists fear deflation is that they know it is more difficult to cheat workers of their productivity because deflation requires cutting wages.

Under socialism, the reward for higher productivity and efficiency will not be higher wages so to speak. The term “wage” is used here in shorthand but with a different content to that of capitalism. Higher wages tied to higher output can only give rise to sectional interests. This is the lesson of the USSR. In the USSR, the use of higher wages based on an increase in piece rate production (intensity) led to the cutting of corners, the misuse of materials and the unnecessary wearing out of machinery due to lack of maintenance. This was predictably caused by workers trying to increase their individual output to boost their wages without regard to the consequences for the economy as a whole. What one group of workers saved penalised workers further down the production line who had to waste their labour correcting or compensating for these inferior and defective goods. What was gained on the one side was more than lost on the other. In the end higher wages led to a rise in labour times and not its fall within the USSR. It is the death knell of any post-capitalist society to incentivise productivity on the income side, rather than as we have seen on the pricing side.

Prices in the USSR were fictitious and not connected to actual costs (weighted average labour times). In the USSR prices had two purposes: to cheat workers of their labour and secondly to reconcile the material elements of the plan. Fictitious prices robbed rather than rewarded the producer and they blinded rather than informed the planners. The USSR was the first modern economy without a coherent pricing system. This gave rise to uneconomic production, waste and ultimately to collapse.

In a democratic socialist society, collective effort is rewarded through falling prices. Effort and reward are united, exactly the opposite to what happened in the USSR. A reduction in labour time because of higher productivity and better organised work reduces the actual costs of production yielding lower prices which benefit each and everyone. The workers who design the new and more advanced machinery, the workers who produce them and the workers who use them to produce cheaper products are all rewarded equally by the resulting fall in prices. The pricing system therefore unites collective effort and prevents sectional interests emerging. It ensures that workers who own the means of production collectively, are rewarded collectively through the pricing system. Without being rewarded collectively, the common ownership of the means of production is rendered meaningless.

Rising profits under capitalism, the motive of capitalist production, is replaced by falling prices, the motive of socialist production. The prices found in the realm of consumption conscientiously follow the path set by costs within the realm of production. Exactly what was missing in the USSR.

The crude and clumsy use of profits to guide investment decisions under capitalism is replaced by the precise guide of direct or objective costs and prices. Prices reflecting actual and expected costs allows society to efficiently allocate the resources of society to both expand and replace existing production. In this way socialism economises on the expenditure of labour time by ending the wastefulness and duplication of capitalism and it does so in a manner unavailable to capitalism. Planning and organising investment and production now becomes a conscious process.

Capitalism which reduces prices indirectly only in order to raise profits is replaced by a mode of production which sees the direct reduction in prices as its sole and primary purpose. This in its simplicity, is the reason why communist production will be crises-free.

#### **PRINCIPLE 6. Consumer led planning.**

The ending of the separation of production and consumption, and therefore the basis for markets, makes planning necessary. Instead of companies reacting to changes in the markets, planning anticipates these changes because the producer is at the same time the consumer. This planning is called consumer led planning. 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 made 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.

Here the legacy of capitalism, in particular 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. The internet is the essential means for conveying the decisions of consumers to the planning bodies who will aggregate these decisions and organise production to fulfil these orders. 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 consumers who are active and planner's passive.

The planning agencies will not be state bodies and will survive the state long after it has withered. The function of the workers' state will be limited to a purely political role, the setting up of these planning bodies, but the state cannot decide what is to be produced.

In the USSR consumers had to accept what the planners had decided for them. Planning was therefore alienating, paternalistic and generally insulting to consumers and their needs. In a socialist society the opposite is the case. Planning becomes invigorating, participatory and precise. Workers who expend their labour and are rewarded by their product do not want their labour wasted by inferior or inappropriate products.

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. 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. As long as 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 and in a form most adapted to the environment. The only penalty will be that, unlike capitalism where the price is limited to the narrow production 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 include the overall cost of consuming any product as well as producing it. That way what is taken from nature is returned to it.

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 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.

#### **PRINCIPLE 7. All necessary labour is rendered social.**

Under capitalism four forms of labour are thrown up. Productive labour, functionally unproductive labour, personal unproductive labour and domestic labour. The first produces commodities and therefore the wealth of capitalist society. The second is employed in the buying, selling, accounting and administering of these commodities not forgetting the labour wasted by arguing over who owns them (legal). The third provides supervisory roles policing the production and circulation process or providing services directly to the capitalist class such as servants, chauffeurs, advisors and so on. All these forms of labour are partially paid. The fourth form of labour, domestic labour, is the exception, for it is never paid.

Socialism renders these different forms of labour redundant. Firstly, it abolishes most functionally unproductive labour such as legal, advertising, marketing, personnel departments, etc., which are no longer needed and reassigns these workers. Secondly it abolishes all personal services again reassigning workers. Fourthly it transforms private domestic labour into social labour. Alongside labour in production which provides the means for life and its upliftment stands the labour that reproduces life, that educates, heals and maintains the quality and dignity of life. Capitalism separates these forms of labour because the former produces profits while the latter costs profits or subsidises profits (domestic labour). Socialism no longer requires these different forms; it treats all necessary labour as work of equal worth.

Socialism thus ends the slavery of women at home and with it the sexual division of labour. It also introduces the regular rotation of workers between production and the sphere of social needs (funded by deductions) so that no sectional interest may arise between those who produce the social product, and who may wish to limit deductions for personal gains, and those funded by these deductions.

#### **PRINCIPLE 8. Internationalism.**

In 1948, one of history's greatest astronomers, Sir Fred Hoyle formed the opinion that: *"Once a photograph of the earth, taken from the outside is available, a new idea as powerful as any in history will be let loose."* He was right. Within twenty years, astronauts would be looking at the earth from the moon witnessing our small blue planet floating alone in space, appearing as fragile as it was

beautiful. *"When you're finally up at the moon looking back on earth, all those differences and nationalistic traits are pretty well going to blend, and you're going to get a concept that maybe this really is one world and why the hell can't we learn to live together like decent people."* (Frank Borman, *Apollo 8*, Newsweek magazine, 23 December 1968). 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 and unites the planet.

And yet many workers continue to cling to their sinking national ship as the globalisation storm rages. This is understandable for many workers feel increasingly left behind if not swept aside by the rise of the multi-nationals. However, if workers are to seize power they can only do so by uniting internationally, otherwise the capitalists will play one national group off against the other. This is the lesson of the USSR.

Stalin's "socialism in one country" was not only a pragmatic response to the defeat of the German revolution in 1923, but it was also a non-aggression pact with imperialism. In exchange for the imperialists (the USA and Britain in particular) respecting the territorial integrity of the USSR, Stalin offered to sabotage or at least disorientate the international workers' struggle. This was the only devil's pact the imperialists would respect. Accordingly, Stalin instructed Mao to disarm the workers in China in 1928 enabling Chiang Kai-Shek to massacre them. In the early 1930s, Stalin convinced the German Communist Party (KPD) that their main enemy was not Hitler but the social democrats whom he labelled social fascists. By precipitating a civil war in the ranks of the German working class, the political space opened up for Hitler to march to power. In 1936 at the height of the Spanish Civil War, Stalin's death squads killed many members and leaders of the POUM (anarchists) thereby weakening the Republican side and helping Franco seize power. The rise of Hitler and the defeat of the Republicans in Spain made war in Europe inevitable and with it the invasion of the USSR, the very act Stalin had sought to avoid.

Therefore, at every level internationalism is not an option. No single nation can exist economically outside the world economy ever again, even a country as large as the USA. Secondly, a peace between a socialist island and the capitalist sea in which it finds itself can only be struck on terms which are fatal to the international working class. Furthermore, nationalism unites workers with their capitalist masters. Support for immigration controls means support for the capitalist state which alone can implement these controls. The enemy is seen as outsiders, migrants seeking work, and not insiders, their own capitalist class. Instead of calling for the removal of their own capitalist class they seek the removal of the migrants, workers suffering a common oppression and exploitation. Once workers support the state oppressing foreign workers, they are unable to defend themselves when this same state turns around and attacks them.

Finally, the problems facing the working class are global in scale. Reversing global warming requires a concerted, united and international response. This is particularly true for ridding the planet of fossil fuel burning. A globalist recognizes that somewhere on our planet there will be found a place where

the sun is shining or the wind blowing. Transcontinental DC power grids, linking up wind turbines and solar panels thousands of miles apart, can provide sustained and sufficient power 24 hours a day thus ending the need for fossil fuel base load power stations. Workers can and must think globally in a way that competition and nationalism prevents the capitalists from doing. Big may not be beautiful, but it is bountiful and liberating.

### **In conclusion.**

The international working class, whose numbers are counted in the billions not the millions, needs a charter of workers' rights to unite it. The eight principles above constitute this core charter. Falling prices which rewards collective effort, the right to receive in proportion to contribution which rewards individual effort, consumer led planning which rewards the expenditure of labour, workers control of production and the right of every producer to decide on the deductions from the social product, forms an indissoluble whole. Their combined purpose is to unite an unequal working class, while their function is to end these inequalities.

This synthesis of purpose and function is understood thus, on the one hand they unite an unequal working class making possible a dynamic socialist - communist economy, secondly and in turn, this dynamic economy makes possible the enlargement, both relatively and absolutely, of the deductions from the social product for "social needs" (Marx). At first these deductions will be limited by the degree of economic development involving many compromises, but later these compromises will diminish as the economic possibilities increase. In time these deductions will be equal to the task of raising every worker to the highest skill in every part of the world. Precisely because compromise will be needed at first, ensuring that the process leading up to them is inclusive and democratic, is of the utmost importance.

This workers' constitution is not abstract; it must be empowered. It requires the prior seizure of state power by the international working class.

Capitalism faces four connected and compounding crises in the immediate future. (1) its difficulty in reproducing itself as manifested by the crisis of productivity and living standards. (2) The introduction of artificial intelligence and the social disruptions this will herald. (3) Its inability to deal with global warming let alone reverse it. (4) The growing struggle, fomented by the US against China, to protect its world economic hegemony by every means. Together they present the greatest political crisis facing capitalism, in magnitude exceeding 1914 or 1939.

The question is not whether capitalism has the capacity to deal with this crisis, it is whether in succumbing to this crisis, it succeeds in dragging humanity over the cliff of history. The twenty twenties will be make or break for humanity and all it has accomplished. The intent of this programme is to demonstrate that humanity does have an alternative to capitalism, that securing the future of humanity is not only necessary, but possible.

Brian Green, 1999 - 2025.