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INTELLIGENCE MEMORANDUM

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REVIEW OF THE NEW SOVIET TEXTBOOK
ON POLITICAL ECONOMY

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REVIEW OF THE NEW SOVIET TEXTBOOK
ON POLITICAL ECONOMY

Summary and Conclusions

The new Soviet textbook on political economy, entitled Political Economy, a Textbook (Akademiya Nauk SSSR, Institut Ekonomiki, Politicheskaya ekonomiya, uchebnik, Gosudarstvennoye Izdatel'stvo, Politicheskoy Literatury, Moscow, 1954), presents the Soviet economy and Soviet economic thought from two markedly different points of view. It is a synthesis of the orthodox economic theory of Marxism-Leninism-Stalinism for all the Marxian stages of economic history. It is also an exposition of the policies, principles, and methodology of economic and social activity in the USSR. The textbook maintains Stalin's orthodox position on the "objective nature" of economic laws, extends the approval of the current leadership to Stalin's formulation of the "basic" law of socialism, and designates (in effect) Stalin's policies as economic laws of socialism. Reaffirmation of the "objective nature" of economic laws was begun by Stalin in 1952. His pronouncements reversed a postwar trend among Soviet authors, who had tended increasingly to treat economic laws as subject to, and even created by, the will of man.

In maintaining Stalin's position that economic laws are "objective laws" independent of the will of man (analogous to the laws of the physical sciences), the textbook reflects a contradiction in Marxian thought -- that is, Marxism-Leninism-Stalinism claims to be both a "science" of social development and a guide to revolutionary action. Often the two positions are logically incompatible because the objective laws which the Soviet Marxist claims to observe when he is directing economic activity and implementing social change are really the results of his own actions based upon general Marxian principles. Consequently, he is greatly tempted to treat social law as the product of man rather than as an objective law independent of man's will. This contradiction will almost certainly appear again under the cloak of another argument.

On the level of the principles and the methodology which obtain in current activities in the USSR, the textbook has much of interest to say. In keeping with Stalin's 1952 criticism of certain economic terms and categories concerning profits and gross savings available to

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the state, the textbook shows a marked aversion to these terms, judging them to be too similar to the terms and categories of capitalism and not descriptive of the actual relationships which exist in the USSR. Similarly, the textbook recognizes that the policy of maintaining low, fixed prices for producer goods inflates the savings accruing to the state (in the form of the turnover tax) from the consumer goods industries. No solution to this problem is offered, however.

The textbook considers it quite proper that as a matter of policy the growth in labor productivity in the USSR always exceeds the increase in wages and that the difference is an important source of saving for investment. Piece wages and extreme wage differentials are particularly sanctioned.

Admitting that differential rent* exists in the collective farm sector, the textbook denies that differential rent exists in the state farm sector, for the sole reason that the organization of the state farms is analogous to a factory -- that is, the state farms are owned by the state, and members receive wage payments rather than a share of the farm's net income as is the case in the collective farms. Moreover, the textbook in no way suggests that differential rent in the collective farm sector determines the scale and direction of investment or that it operates as an autonomous factor which determines the quantity and location of land under cultivation.

Current problems are taken up in some detail in the discussion of agriculture, reflecting the fact that historically agriculture has been the problem sector of the Soviet economy and that the post-Stalin leadership has every intention of implementing the current consumer goods program. Since the textbook specifically states that lagging growth in the agricultural sector has violated the "law" of planned proportional development; it may be concluded that the Soviet leadership considers this disproportionate growth to be a brake upon the growth of the economy as a whole. Furthermore, there can be no doubt that the collective farms will be transformed (perhaps by degrees) into state farms and that the private plots of the households will be eliminated as soon as the regime possesses the necessary resources.

The discussion of the transition from socialism to Communism emphasizes two points: the abolition of the differences between mental and physical labor and the elimination of differences between town and country. The means of accomplishing these objectives are

* Broadly speaking, differential rent is the difference in return over and above the cost of labor and capital between the lowest cost producer and the highest cost producer.

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given as "automation" (introduction of automatic machinery and factories), electrification, and the use of atomic energy.

The following conclusions concerning current Soviet economic problems and policies may be drawn:

1. The present Soviet leaders have discarded the cult of Stalin's personality, but they remain, in substance, very orthodox adherents of Marxism-Leninism-Stalinism.

2. Although they are quite serious about achieving the increased consumption goals under the new program, the Soviet leaders implicitly still consider individual consumption as a cost of production and not the object of economic activity. To be sure, in the long run (in which, as Keynes put it, we will all be dead) individual consumption is still, as always, the explicit goal of economic activity in the USSR.

3. Current concessions to the peasantry probably are short-term in nature. Together with these concessions, the USSR is simultaneously carrying out policies (for example, making the tractor drivers permanent employees of the Machine Tractor Stations) which will facilitate the abolition of the private household plots and the transformation of the collective farms to state farms when sufficient resources are available. In view of past experience, the pursuit of this objective should lead to major stresses and strains in Soviet society.

4. In the eyes of the Soviet leadership the lagging growth in the agricultural sector is a serious obstacle to the long-run growth of the economy as a whole. Agriculture will continue, therefore, to require substantial allocations of resources.

5. Carrying out the "transition from socialism to Communism" by the means proposed in the textbook will involve a high priority for expanding the output of electrical energy, automatic machinery, and associated electronic equipment and in the utilization of atomic energy for industrial purposes. If current policies

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are followed in introducing automatic machinery, the result will be a greater degree of capital intensity than is currently considered economically justifiable in the West.

I. Introduction.

Political Economy, a Textbook, written by a group of nine authors (and a statistical assistant) headed by the Director of the Division of Economics of the Academy of Sciences of the USSR, Academician K.V. Ostrovititsyanov, purports to be a definitive statement of the Marxian theory of economic history. 1/* In this textbook the authors set out to summarize the past, to delineate the present, and to outline the future growth and development of the productive forces throughout the entire course of human history. Proceeding from the Marxian dogma that the productive forces constitute the dynamics of human society and that human society develops in a linear process moving from lower (primitive) to higher (Communist) stages, the textbook proceeds to expound the fundamental characteristics of the economic dynamics in each stage of development from primitive communism to latter-day Soviet "socialism." It follows that this analysis of the development of the productive forces is to serve as the dogmatic framework for explaining all other historical phenomena. In short, the textbook is designed to be a synthesis of the doctrine of historical materialism as expounded by Marx, Engels, Lenin, and Stalin, the first such official synthesis attempted. Consequently, it not only deals with the development of economic history as a whole but also treats the present stages of development in terms of the past, present, and future. In these terms, it treats of capitalism in the West, of socialism (Communism) in the USSR, and of the development of socialism in Communist China and the European Satellites. Political Economy, a Textbook is designed to provide Communists throughout the world not only with an education in fundamental dogma but also with a general, strategic guide to action.

Writing of the textbook was initiated in 1939, delayed by the war years, and hampered by ideological difficulties after the war.

* Footnote references in arabic numerals are to sources listed in the Appendix.

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Apparently the draft had reached an advanced stage by early 1952, since Stalin's Economic Problems of Socialism in the USSR was primarily devoted to a critique of various drafts and to the formulation of the "correct" theories. In a sense, Stalin's Economic Problems constituted his report to the 19th Party Congress, but it reflected Stalin's pre-eminent position in that his pamphlet was published before the Congress actually convened. 2/ Lesser men such as Khrushchev, Malenkov, and Beriya delivered their reports directly to the Congress in the usual manner. Only Stalin could speak ex cathedra, and Stalin's pamphlet set the ideological tone of the Congress. If Stalin had lived, it is doubtful whether the textbook would have been published by this time. Moreover, if published during Stalin's life, it probably would have been designated as part of Stalin's collected works. Bearing by virtue of its authors and publishers the official imprimatur of the Communist Party of the USSR, the textbook is one of the most important official documents published by the Soviet regime.

The new Soviet textbook on political economy is divided into three parts: Part I, which surveys the entire precapitalistic period in 63 pages, contains one chapter each on primitive communism, slaveholding, and feudalism; Part II, which surveys the capitalistic period in 234 pages, contains 19 chapters on the various laws and categories characterizing the capitalistic stage of development, with slightly less than half the space devoted to the "highest," or "monopoly," stage of capitalism; and Part III, which surveys the development of socialism (Communism) in 300 pages, contains 18 chapters devoted to socialism in the USSR and 3 chapters on the remainder of the Soviet Bloc: 1 each on Communist China, the European Satellites, and intra-Bloc relationships.

The objectives of this review are (1) to examine the method and consistency of presentation; (2) to analyze the content of the more important parts with particular reference to the historical background of the content and to note divergence from previous theoretical treatment with respect to Stalin's treatment of the same problems; and (3) to analyze the significance of the content for forecasting future Soviet action which bears upon the national interest of the US. Owing to limitations of time this review will be limited to Part III: "Socialist Means of Production."

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II. Nature of Economic Laws under Socialism.

In Chapter XXVIII the authors come to grips with the fundamental problem of Part III -- the nature and content of economic laws in the socialist phase of development (which is considered to be the first phase of Communism). Before dealing with the economic laws of socialism, however, the authors find it necessary to affirm the objective nature of economic laws -- that is, to establish economic laws as analogous to laws of nature which have objective existence beyond the consciousness and will of man.* Moreover, the authors find it necessary to devote some space to distinguishing those categories (such as economic laws) which do not change significantly in either form or content in one stage of development from those categories (such as money) which remain identical in form but which may differ drastically in content from one stage to another. The treatment of these problems is, in substance, identical to Stalin's treatment in his Economic Problems. 3/

There are three themes which dominate the part of Stalin's pamphlet which deals with the Soviet economy: (1) the objective nature of economic laws; (2) the basis for the existence and the characteristics of the law of value under socialism; and (3) the problem of the market relationships of the collective farms with the economy as a whole. It seems quite clear from Stalin's statements that many Soviet economists subscribed to the heresy that, under socialism, men acting through institutions create, or at least significantly modify, economic laws. An example of this attitude toward the law of value is the following quotation from a leading Soviet economist, L. Mayzenberg (who has subsequently reformed) 4/:

In implementing the planned direction of the national economy the Soviet State consciously utilizes the law of value in the interests of strengthening and of developing the socialist law of value which operates in the Soviet economy in a reformed form.

* The word law as used in this review will always be used in this sense. In no case will it be used in reference to legislation or to some operating principle. This concept of objective law as here used stems from Marx and his intimate association with the nineteenth century, when every social "scientist" was looking for immutable laws of society to match the immutable laws of physics, chemistry, and biology.

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Determining the price of commodities on the basis of the socially necessary expenditure expended in their production, the monetary form of wage payments, the implementation of the planned direction of the enterprises on the principles of economic accounting represent those concrete forms by which the Soviet State consciously utilizes the law of value in the interests of stimulating the growth of the productivity of labor and increasing production.

To Stalin, and to the authors of the textbook, such a statement of the operation of the law of value denied this law an objective existence independent of the will of man, reduced the law to the level of ordinary economic legislation, and incorrectly extended its scope of operation. Stalin opened his pamphlet with a denunciation of the idea that economic laws could be "reformed" and with a lengthy assertion of their objective character. The denunciation of "reformism" and the affirmation of the objectivity of economic law in the textbook deserve to be quoted at length 5/:

The economic laws of socialism, like the economic laws of any form of production, arise and operate independently of the will of man, that is, possess an objective character. They cannot be created, molded, reformed, or abolished by the will of man.

Denying (otritsaniye) the objective character of economic laws of socialism would mean the liquidation of the political economy of socialism as a science, would deprive the socialist society of the possibility of foreseeing the course of events in the economic law of the country and would prevent even the most elementary economic direction. Such negation is a departure from Marxism-Leninism to the position of subjective idealism which would inevitably lead to adventurism in policy, to arbitrariness in the practice of economic leadership.

The objective character of economic laws under socialism by no means signifies that they operate as a spontaneous force, dominating man, that man is helpless before the face of these economic laws. Such a fetishism of economic laws inevitably leads to the positions of drift and spontaneity* in socialist

* The Russian word stikhiynost' has been rendered as "spontaneity" but in this context has the connotation of a combination of arbitrariness, capriciousness, and unpredictability.

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construction. It is the mortal enemy of Marxism-Leninism. Under the conditions of socialism where social ownership of the means of production is substituted for private ownership, the possibilities for the cognition and the utilization of the social laws of economic development are vastly extended.

And further 6/:

Thus the objective character of economic laws of socialism means that these laws exist independently of the will and consciousness of man; they cannot be abolished or reformed according to the will of man; to fail to fulfill the imperatives (trebovaniye) of these laws inevitably leads to disorder in the economic life of the country. But the socialist society may become cognizant of these laws, master their operation, and utilize them in their own interest.

Reaffirming Stalin's position that the law of value continues to exist under socialism inasmuch as commodity production (in the Marxian sense) still exists in the agricultural sector, the textbook goes on to discuss the problem of form and content under different stages of historical development. This problem arises, among other reasons, because of the Marxian assumption of the determinant nature of the productive forces -- the "substructure" -- and the dependent, ephemeral nature of the productive relationships -- the "superstructure." Economic laws do not change significantly in form or content, but what about such things as money? Is money, for instance, an inseparable part of the superstructure of presocialist stages of development and consequently to be abolished along with private property and the other productive relations of capitalism? Again the textbook is worth quoting in detail 7/:

Inasmuch as commodity production continues (sokhranyayetsya) under socialism, the law of value operates in the socialist economy, and the categories connected with it also exist. However, only the form of the old categories remains; the content changes fundamentally. The old categories are not cleanly abolished but change their nature to approximate the new, preserving only the form; the new categories do not simply obliterate the old but penetrate into the old, changing their nature and functions, thus using the old forms for the

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growth and consolidation of the new. The new economic conditions created as a result of the victory of socialism have changed the character of commodity production and commodity circulation and limited the sphere of their operation. Under socialism commodity production and commodity circulation exist without capitalists and serve the socialist economy. The sphere of action of the law of value has strictly limited boundaries. Money, trade, and banks are utilized (in essence) as instruments of socialist construction.

In substance this corresponds to Stalin's position. The law of value continues to exist because market relationships continue to exist in the collective farm sector. Money, trade, and banks continue to exist because they are "instruments" of economic laws and thus may serve different economic laws in different stages of development. Since approximately 90 percent of retail trade including 80 percent of marketed foodstuffs passes through the state network, at prices fixed by the state and indirectly influencing the prices of the kolkhoz market, the state is able to limit the sphere of influence of the law of value. The law of value will cease to operate when all vestiges of the capitalistic market mechanism are obliterated. In the meantime, however, the law of value cannot be "reformed," nor can it be "utilized" in the sense that "instruments" such as money and credit can be consciously utilized, because the law of value is an objective law. Man, acting through institutions, can limit and utilize the law of value only by setting other laws in opposition to it, such as the law of planned, proportional development of the economy. This seems to be the essence of the position taken by Stalin and the textbook as contradistinct to those, apparently headed by Voznesenskiy but continuing to write and to express their opinions long after his fall from grace, who spoke of the "reformed" law of value under socialism, of "molding" the law of value for certain purposes, and of the "utilization" of the law of value by the Soviet state in the sense of manipulation to achieve desired ends.

Having reasserted that economic laws, like laws of nature, have objective existence independent of the will of man, and having asserted that in some instances new wine could be put into old bottles, the textbook proceeds to list and to discuss the economic laws of socialism. Aside from the continued existence of the law of value, which is a carryover from the lower (capitalistic) stage of development, the textbook lists one "basic law" and three "laws" of the economy of socialism.

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The basic law of socialism is defined as "insuring the maximum and uninterrupted satisfaction of the constantly growing material and cultural demands of the entire society by means of the uninterrupted growth and modernization of socialist production on the basis of the highest technology." 8/

The three other economic laws of socialism are "the planned (proportional) development of the national economy," 9/ "distribution according to work," 10/ and "the constant growth of the productivity of labor." 11/

Of the four "laws," only the first is designated as the "basic economic law of socialism" (osnovnoy ekonomicheskii zakon), while the other three are listed simply as laws (zakon) of the socialist economy. The basic economic law of socialism is a direct quote of Stalin's tentative formulation in his Economic Problems. Previously, Soviet theoreticians had often listed similar formulations as being "one of the basic economic laws" of socialism but always as one among several "basic laws." In the past, Soviet writers have often listed the "planned, proportional development of the economy" as one of the "basic economic laws." It is not known at this time whether the other laws listed by the textbook have been previously so designated by Soviet economists. The explicit hierarchy, however, is a new development in accordance with Stalin's formulation.

To the outside observer the entire discussion of the objective nature of economic laws may appear to be merely a rationalization of policy. To those who do not share the Marxian premises and values of the Soviet leadership, this discussion appears to be primarily an attempt to justify the harsh reality of a continued low level of consumption and state controls with the abstract necessity of objective economic law which man must obey. As Lenin put it, "Man is free only when he consciously acts in accordance with necessity." This position follows from the fact that Marxism claims to be a science which discovers and treats laws of society which are as immutable to the will of man as are the laws of the physical sciences. Consequently, if the Soviet Marxist admits that economic laws are not objective, and then carries this premise to its logical conclusion, his whole ideological edifice is likely to come tumbling down. If the law of value were permitted to lose its "objective nature" under socialism, the way would be opened for denying the existence of any objective laws under socialism, which in turn probably would lead to a very basic revision of the theory of Marxism-Leninism-Stalinism. Stalin's role in the

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discussion that evoked his pamphlet on economic problems, as well as the role of the textbook, is to restore and preserve rigid orthodoxy in the philosophy as a whole and to apply this orthodoxy to the present and future.

Aside from the motivations that produced them, each of the four economic laws of socialism deserves detailed comment, with reference to content, significance, and mechanism of implementation.

III. Content of the Economic Laws of Socialism.

The primacy of the basic economic law over the other laws is derived from the interpretation that it alone contains both the goals of economic activity under socialism and the means of arriving at the goals. The basic economic law of socialism, therefore, gives meaning to the other laws. The law of proportional development does not answer the question: development for what? As stated by Stalin and the textbook, the "basic law" defines the goal of economic activity as the "satisfaction of the constantly growing material and cultural demands of the entire society." According to the official interpretation, the basic law means the systematic and uninterrupted growth of consumption by means of priority production of producer goods, heavy industry in general, and machine construction in particular. This proposition is not exactly new, but it is good, orthodox Marxism-Leninism-Stalinism. It reiterates past doctrine and practice that if a high rate of investment is maintained long enough, Communism will arrive some day.

Immediately following this treatment of the basic economic law of socialism is a section on the growth of real wages in the USSR. The statistics are chosen carefully to show a substantial increase, a much greater increase than has actually occurred, since comparison of total consumer goods available to the population indicates that even the 1940 standard of income was not regained until approximately 1950.

The next section deals with the function of the Soviet state in the Soviet socialist economy. The all-encompassing economic functions and system of controls of the Soviet state are set forth in considerable detail. After this somewhat verbose treatment of the role of the state, the primacy of the Party is stated more succinctly 12/:

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The guiding and organizing force of the Soviet State is the Communist Party, which directs the activities of all State organs and the social organization of the toilers. The Party gives the directions for the composition of the national economic plan and works out the most important measures of a national economic order having great significance for the entire country. The Party, strengthening its ties with the toilers, mobilizes the workers, peasants, and intelligentsia for the fulfillment of national economic tasks, educates the masses, raises their communist consciousness. The policy of the Communist Party and the Socialist State, directed toward the satisfaction of the new demands of the economic development of the society, play the greatest progressive role.

The primacy of the Party is time-hallowed practice, but this explicit statement of the Party's role is very much in line with the post-Stalin emphasis on Party leadership, control, and initiative. It might also be remembered that the Fifth Five Year Plan has not yet been promulgated, since in a technical sense the Plan is a body of economic legislation to be passed by the Supreme Soviet. The current Fifth Five Year Plan remains nothing more than the Party directives to the state which were announced before the XIX Party Congress in August 1952 and slightly revised by the Congress itself in October 1952.

A. Law of Planned (Proportional) Development.

In essence this law seems to mean that each sector -- agriculture, industry, and transport -- will grow at a rate sufficient to permit the planned rate of growth of the other sectors and within a sector each subsector: for example, steel industry will grow at a rate sufficient to insure the planned rate of growth of all other industries consuming its product and of the sector as a whole. The most interesting parts of the discussion of this law in the textbook are the discussion of the mechanism for implementing the law and the admission that the law has been violated recently by lagging, disproportionate growth in the agricultural sector.

The basic mechanism for implementing the law of planned proportional development is the system of material and monetary balances. The development of the material balances is one of the most interesting

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developments of the postwar period. Their designation (together with the balances of monetary flows) as the mechanism for implementing the law of proportional development marks the culmination of a process which began in 1936 and picked up momentum in the postwar period, particularly after the formation of the State Committee of Material-Technical Supply (Gossnab) in 1948. Roughly analogous to a system of double-entry bookkeeping in which all supplies (production and inventories) of raw materials, semifinished goods, and capital equipment are entered on one side, and all demands (requirements for production according to the plan) are entered on the other side, the material-technical balances are constructed for the 1,500 to 1,600 "funded commodities" which are centrally allocated by the Council of Ministers. On the basis of these balances the planning authorities construct a plan for the distribution of the funded commodities to the various producing units. The textbook confirms previous treatment of the material balances in Soviet journals in that they are constructed in physical, not in value, quantities. In the earlier period the balances were constructed for fewer commodities and apparently were used only to insure internal consistency over a period of several years. Beginning in 1947, however, and particularly since the formation of Gossnab* in 1948 the material-technical balances have become the operational mechanism for resource allocations by the central authorities. A system of monetary balances is used to attempt to check the economy of these allocations and to achieve the current proportions between monetary flows. Resource allocation by central authorities through a distribution plan based upon the material-technical balances is one of the means for limiting the operation of the law of value in that producer goods and raw materials are allocated according to the national plan. Allocations are not determined by the profitability of the particular industry, and goods are transferred at prices reflecting cost of production to the producer plus a stable rate of profit fixed by the state. The bulk of the profit is then taxed back by the state for investment and defense.

It also should be noted that the textbook stresses the importance of the so-called "average progressive norms" which are input-output ratios for raw materials and semifinished goods, for labor, and for the productivity of capital equipment, fixed by the central authorities on the basis of the most efficient producers. Allocations are then determined by these norms rather than by the old system of "average experiences norms" for each producer or ministry.

* Merged with the State Planning Commission (Gosudarstvennaya Planovaya Kommissiya -- Gosplan) in the 1953 reorganization.

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The development of the new "average progressive norms" also is primarily a postwar development.

It may be concluded, therefore, that the law of planned (proportional) development provided the conceptual framework for allocating resources in accordance with the objectives of the state plan, which presumably is derived from the basic economic law of socialism. Both Stalin and the textbook make it clear that this law replaces the law of value in the allocation of capital equipment, fuel, power, and semifinished goods, which do not enter into individual consumption. According to Stalin, in the distribution of the existing stock of consumer goods, "the law of value preserves for itself, to be sure, the role of regulator within certain known limits," but it has only a negligible "regulating significance" for production of consumer goods by the state sector. Since the operation of the law of value is limited to commodity production, which by definition excludes activity connected with the production of producer goods, the area of the operation of the law of value is strictly limited. ¹³/* The textbook takes the same position. The operation of the law of value is limited to those areas in which commodity production exists, which means that "the sphere of operation of the law of value has strictly limited boundaries." Beyond these boundaries, in the production and distribution of producer goods (which are not considered to be commodities) the law of planned, proportional development operates.

There is one important qualification that is in order here -- namely, in regard to the influence of the rate of return to capital in making investment decisions. The rate of return to capital is not the sole determinant of the decision to invest in light or heavy industry or the decision to invest in the petroleum industry rather than in the engineering industries. Certain basic investment decisions are made largely independent of yield of the investment input, whereas other decisions are almost wholly dependent on yield. However, given a decision to invest in the coal industry, for example, the rate of return between different mines, or different combinations of inputs, influences the decision between the available alternatives.

* The Soviet theorists define the law of value in terms of Marx's archaic 19th century formulation, which was inadequate at the time and which is inapplicable to contemporary capitalistic economies. To the extent that the Russians take real costs into account, their actions in the long run probably are more in accord with the law of value as the term is used in market economies today than they would consciously admit.

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So far the Soviet planners have not been able to settle upon an acceptable methodology, and there is no standard rate of "capital effectiveness" prescribed by the central planning authorities for use in such decisions. The current status of this problem in Soviet economic theory and practice is believed to be summed up in the following quotation from the recent report on extended discussions of capital effectiveness which have taken place during the past year 14:

Thus as a result of the discussions it was established that under socialism the law of value and the profitability of the various enterprises cannot be considered as the criterion of the economic effectiveness of capital investment. The economic effectiveness of capital investment consists in the correspondence of the investment to the demands of the basic law of socialism and of the law of planned proportional development of the national economy. It is expressed in receiving, as far as is possible, a larger national income with a lesser expenditure per unit of production, and in correspondence to the structure of socialist production, which will assure the maximum satisfaction of national needs, the further uninterrupted growth of production on the basis of the highest technology and the strengthening of the defense capabilities of the country. In project planning the profitability of the enterprises must be considered within the framework of this higher form of profitability.

As a result of the discussion it was brought out that in many instances the minimum direct cost and the least capital cost of production cannot be considered the deciding factor in the economic effectiveness of project planning decisions. If reduction in direct cost is connected with additional capital investment, it is expedient to make a comparison between the variants. This comparison ought to be considered as one of the factors in making project planning decisions.

Given the scale of output, which is determined by the central authorities in accordance with the hierarchy of priorities, transfer price changes occur primarily as a result of changes in the cost of production and have no necessary, automatic relationship to changes in demand. Price may be adjusted to add a supplementary control to the use pattern determined by the planning priorities or to insure

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that price does not offer an inducement to deviate from the direct allocations, but price is not the sole determinant of the schedule of priorities.

Soviet writers are quite explicit in their discussion of the function of price and its relation to the law of value, as is indicated from the following quotation from one of the more prolific writers on the subject, L. Mayzenberg 15/:

The regulating activity of the law of value cannot but be considered as the determining form of the price relationships between various commodities.* In contrast to the means of production, which are directly distributed between the various enterprises, consumer goods are acquired by the consumers (the collective farm members, the population) in the form of the free sale of this or that article of consumption.

Inasmuch as the decisive part of accumulation in the socialist economy is concentrated in the hands of the Soviet state and distributed in accordance with the demands of the society as a whole (expressed through the state plan) the scale and tempo of reproduction in various enterprises and branches of industry does not determine the level of prices of the means of production. The function of prices of the means of production, excluding foreign trade, consists in its role as an instrument for economic calculation, for accounting, for determining the profit and loss position of the enterprise, for verification and control (of the activities) of the enterprise.

For consumer goods, price has a direct distributive function; for producer goods, price is confined to a costing function -- that is, to an internal control function employed to minimize the inputs of goods and services for any specified output.

* The word commodities in this context is used in a Soviet Marxian sense. It refers only to consumer goods, since the law of value does not "regulate" the production and distribution of producer goods.

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B. Law of the Constant Growth of the Productivity of Labor.

Most of this section is devoted to reiterating the Marxian principles that constantly increasing labor productivity is necessary for constant growth and that "past" labor -- that is, machinery, structure, and so on -- is to be continually substituted for "living" labor but always in an attempt to decrease total labor inputs per unit of output. For the period 1940-53, increased labor productivity is said to have accounted for 70 percent of the growth of industrial output. In addition, there are two aspects of labor productivity which are discussed elsewhere in the textbook but which are relevant to the problem of labor productivity.

First, the textbook quite frankly repeats what other Soviet writers have said many times: wages in the USSR increase along with labor productivity but always at a much slower rate. The Russians themselves consider this lag, the most important single source of investment funds. Maintenance of a very high rate of saving (investment and defense account for 35 to 37 percent of gross national product) means that consumption lags far behind the growth of labor productivity. Second, the introduction of "automation" (automatic machinery and factories) is expected to play an increasingly important part in future growth of labor productivity and in abolishing the differences between mental and physical labor -- a process which is an essential condition for the transition to Communism. As an example of automation the textbook cites the two automatic factories put into production in 1951-52 for producing truck engine pistons. These plants are remarkable for their degree of mechanization; their designers have gone to great lengths to design expensive and complicated machinery where a few semiskilled workers would be sufficient. Consequently, only 4 or 5 engineers and maintenance men were required to operate each plant.

The degree of mechanization found in these plants reflects an earlier discussion of machine-tool designing which took place in July 1950. The occasion was the publication of a book on automation by an outstanding Soviet authority on automatic-tool and tool-line design, Professor G.A. Shaumyan. A conference of the top tool designers in the USSR severely criticized Shaumyan for stating that automatic tools should be designed with the highest possible rate of output technologically possible and that one of the objectives, and advantages, of automation was the substitution of semiskilled for highly skilled workers. The conference went on to assert that

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automatic machinery in the USSR must be designed to minimize labor inputs in the productive process and to substitute highly skilled workers and engineers for less skilled individuals. This philosophy apparently was followed to the hilt in designing the piston plants mentioned above and results, of course, in lavish use of capital equipment, which is a scarce resource, whether Soviet theory admits it or not. Recently an article in the journal of the machine tool industry suggested somewhat of a compromise. ^{16/} The author proposed that more attention be devoted to making standard tools semi-automatic and to using automatic transfer equipment with standard tool models, rather than designing and building expensive and highly specialized tools which can produce only one item. To be sure, automation is still in its infancy in the USSR as in the West. The relevant point is that implementation of the policies for introducing automation which are implied by the textbook may well lead to over-capitalization (relative to a market economy) and to a lack of flexibility in productive processes.

C. Direct Cost, Price, and Accumulation.

In the earlier postwar years, Soviet economists used a most interesting concept to account for the difference between the cost of production and the wholesale price (primarily for producer goods). Cost of production was defined as the accounting category sebestoimost', which is a close approximation of the US concept of current operating cost, inasmuch as it includes the cost to the producer of raw materials and semifinished goods, fuel and power, wages, an amortization charge, and administrative expenses. The difference between this and the wholesale price (net operating income in US terminology) was called "surplus product" and was declared to be different from Marx's surplus value because of social ownership of the means of production. The striking similarity between "surplus product" and "surplus value" seems to have bothered Soviet theoreticians, and the former term is being discarded. In the textbook this formulation is replaced with the category of "net income" (chistyy dokhod) to describe the difference between sebestoimost' and the wholesale price, the difference being identical with the "profits" of the enterprise. Thus the aggregate of profits, most of which accrue to the state through the profits tax, become part of the "net income" of the society as a whole. The other major part of net income (for the society as a whole) is the turnover tax, which was formerly described as part of the "surplus product" formed in agriculture plus the "surplus product," over and above profits of the enterprises, in the light and food

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industries. Indeed, the authors of the textbook are dissatisfied with the term "turnover tax." It is not really a tax (they say), because it does not enter into the calculation of the wage fund and of kolkhoz income. Likewise the authors of the textbook do not like the word "profit" (pribyl') and apparently would prefer "profitability" (rentabel'nost'), which has a more limited connotation connected with the Soviet concept of economic accountability: the income of the enterprise should equal its costs of production including profit. In his Economic Problems, Stalin indicated that such terms as "surplus product" were outmoded and should be replaced.

Much of the treatment of these problems in the textbook was foreshadowed in an article by A. Bachurin, 17/ who suggested that profits and turnover tax be called something like "net income." Bachurin went on to say that the large volume of the turnover tax (approximately 250 billion rubles per year) was in part a result of the low prices for producer goods furnished to light and food industries. Bachurin suggested that the prices of producer goods be increased in order to transfer part of the turnover revenue to the net income (profits) of the producer goods industries. Having made this proposal, he immediately went on to say that it would complicate certain administrative-accounting problems and, more seriously, would contradict the policy of continually reducing prices of producer goods as direct costs were lowered. There the argument was left hanging. The textbook notes that part of the large volume of the turnover tax originates from the low prices of producer goods but goes no further. Indeed the textbook reaffirms the policy of reducing prices of producer goods in accordance with the reductions in direct costs (sebestoimost').

It is believed that the above discussion covers most of the highlights in the textbook concerning general theory, accounting practice, and general policies for the internal economy as a whole and for industry. The problem of agriculture in the Soviet economy requires separate treatment.

IV. Political Economy of Soviet Agriculture.

There are four aspects of the treatment of the agricultural sector in the textbook which seem most deserving of comment: (1) the treatment of differential rent; (2) the transfer of the Machine Tractor Stations (MTS's) to a khozraschet (economic accountability) basis; (3) the insistence on the observance of the fixed norms for deliveries to the

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state; and (4) the problem of transition to Communism in the agricultural sector.

Treatment of the problem of differential rent in agriculture is relatively rare in Soviet economic literature; only four articles on the subject are known to the writer (for the postwar period). In general, these articles are rather vague, suggesting that the authors were aware that they were on ideologically treacherous ground, but they all agreed that differential rent existed and that some part of it accrued to the state. Furthermore, they more or less agreed that the existence of differential rent was bound up with the nature of collective farm property (as contrasted with the state farm system) -- that is, that its origin was in the productive relationships rather than in the productive forces.

According to the textbook there are two categories of differential rent in the collective farm sector. Differential rent of the first category is defined as the "supplementary net income" arising from differences in quality of land and from location to markets, given the same level of mechanization and the same crop pattern. Differential rent of the second category is defined as the "supplementary net income" arising from differences in "intensity" of cultivation owing to variations in inputs of capital and labor. According to the textbook, most of the differential rent in the collective farms is retained, a statement which should be taken with a large grain of salt for the Stalinist era at least. The textbook does admit, however, that a part of the differential rent accrues to the state through payments in kind to the MTS's, obligatory deliveries, and the tax on collective farm income. No mention is made of differential rent on the state farms; presumably the authors of the textbook do not admit its existence on the state farms, because of the completely socialist productive relations which obtain there. Differential rent is not accorded an allocational function.

Heretofore the operating expenses of the MTS's -- the cost of fuel and lubricants, spare parts, wages, and administrative expenses -- have been financed by direct budget grants. Payments in kind for MTS services apparently were accounted for through the procurement channels. It is of great interest to note, therefore, the statement in the textbook indicating that in the near future the MTS's will be put on a cost accounting basis -- their income will be expected to equal their expenses, with a flat percentage profit, as

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is the case in state farms and in industry. This development should be placed in the context of another aspect of the new program -- namely, making the tractor drivers permanent employees of the MTS's instead of collective farm members who were part-time tractor drivers. Indeed, we might adopt one of Lenin's slogans and call the present program "one step forward, two steps back." The backward steps are the concessions granted to the peasantry as a part of the new program, essentially short-run tactics to attempt to increase production as quickly as possible. More significant for the long run is the extension of factory, urban relationships to the countryside in the form of MTS's to be placed on a cost accounting basis and with permanent, wage labor. This will set the stage for a future consolidation of the collective farms, perhaps turning them into state farms, and the constriction and/or abolition of the private plot.

The textbook devotes a fair amount of space to asserting that hereafter the obligatory delivery norms will not increase when the production of the collective farm increases. Theoretically the norms for obligatory delivery were previously set at a flat rate per unit of land within a given region with relatively uniform soil and climate. During the postwar period, however, it apparently had become common practice for procurement and Party organs to raise the norms well above the established regional rate for the more productive collective farms. It is possible that Stalin himself was personally responsible for the continuation and spread of this practice, since it apparently was so common that the central authorities must have been aware of it. From the tone of the textbook it would seem that the authors expect that the enforcement of the established rates for all collective farms will increase incentives.

In the treatment of the transition of the agricultural sector from socialism to Communism there is no mention of Stalin's "product exchange." On the other hand, it is possible that the authors do not expect commodity production and exchange to disappear until the end of the transitional period.

The following formula is given 18/:

As long as two basic productive sectors remain -- the state and collective farm -- commodity production and commodity exchange, which the state utilizes for the construction of Communism, inevitably continues. Commodity production and the categories connected with

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it will disappear only on the basis of a single Communist system of property relations.

In substance this is identical with Stalin's position. Stalin's timing, however, may have been different; he may have wanted to see the process begin before he died.

In general, the textbook contains a reaffirmation of time-honored Marxist-Leninist-Stalinist objectives of eventual complete socialization of the productive relations in agriculture and the abolition of differences between town and country. Here it is appropriate to quote at length the treatment of the eventual fate of the collective farms given in the chapter on the transition from socialism to Communism 19:

The growth in the productive strength of the socialist society evokes the necessity for change in the sphere of productive relations. In the highest phase of Communism the productive relations will be based upon unified, all-national, Communist ownership of the means of production. The transition to unified, Communist ownership* demands the strengthening and most advanced development of state all-national ownership by all available means, and the gradual raising of collective farm-cooperative ownership to the level of all-national ownership. The existing differences between town and village will disappear on the basis of unified, Communist ownership of the means of production.

In the stage of socialism the existing differences between town and village, between workers and collective farm peasants are that industry is composed of state all-national ownership, while agriculture is composed of group, collective farm ownership. Electrification, mechanization, automation, and chemicalization exist to a significantly greater degree in industry. Despite the extension of the cultural revolution in the villages the rural population still has not reached the level of the urban population.

* The Russian word sobstvennost', which is translated as "ownership" throughout these passages, means "property," strictly speaking. "Ownership" is used here because it is more likely to impress the reader that it is the relationships of things and not the things which are important in this context.

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The elimination of the existing differences between town and village is proceeding in the process of constructing Communism. Socialist industry is the decisive force in obliterating the existing differences between town and village, between industry and agriculture. Only the most advanced development of heavy industry by all available means will provide the possibility for carrying out the full mechanization of all branches of agriculture.

Socialist industry plays its reforming role in relation to agriculture primarily through the Machine Tractor Stations, which play the leading role in the development of collective farm production. As the most important industrial centers of socialist agriculture, and as initiators of advanced culture of cultivation, the Machine Tractor Stations are constantly widening and completing their service to all branches of agriculture by providing the latest technology and permanent cadres of engineer-technicians, agronomists, and zootechnologists. Through the Machine Tractor Stations the socialist state carries out its guiding role in the development of the collective farms along the road of the gradual transition from socialism to Communism. The significance of the state farms as models of a larger and more highly mechanized agriculture is becoming greater. Thus the role of all-national ownership in the most complete development of socialist agriculture grows more and more.

After a paragraph devoted to the importance of increased electrification, the textbook proceeds:

The agricultural artel' is the basic form of the collective farm during the course of the gradual transition from socialism to Communism. The agricultural artel', combining a socialized economy* productive forces as the chief strength of the collective farms with the private economy productive forces of the individual collective farm members, satisfies in the highest degree the interests of the state, the collective farms, and the collective farm members. The

* Phrases in brackets have been inserted by the writer. The Russian word is khozyaystvo, which unless qualified (as it usually is here by an adjective) includes what the Marxists call "productive forces" as well as what they call "productive relations."

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agricultural artel' contains enormous, still not fully utilized potential for increasing the productivity of labor. Armed with advanced technology through the assistance of the Machine Tractor Stations, the collective farms are successfully developing their socialized economy which is the basis for the creation of an abundance of agricultural products.

The tasks of cultural and dwelling construction in the collective farms are being decided by developing and strengthening the socialized economy [productive forces]. The faster the socialized economy of the collective farm grows the more completely the numerous personal demands of the collective farm members are satisfied. When an abundance of agricultural products is attained the socialized economy of the collective farms will satisfy the demands of the state, the demands of the collective farms, and the personal demands of the collective farm members. Then it will be disadvantageous to the collective farms members to have cows and young cattle, and the potatoes and vegetables from the private garden plot. Consequently the necessity for having a personal economy [personal control over means of production] will disappear.

The chapters on agriculture devote considerable space to current problems and policies. In dealing with other topics the treatment tends to be more general. Moreover, the textbook frankly admits that the growth in output of the agricultural sector has lagged so badly that the law of the "planned [proportional] development of the economy" has been violated. It is the opinion of the writer that, in effect, the authors of the textbook are admitting that the lag in the agricultural sector is inhibiting the growth of the economy as a whole.

There are several measures of this lag which can be briefly noted. Thus official Soviet indexes of value of output for agricultural production show an increase of 14 percent in 1950 compared with 1940, while 1952 was only 10 percent above 1940. Similarly, Soviet statistics indicate that the marketed share of grain -- that is, that part of the grain harvest available for urban consumption -- currently does not exceed the 1940 level by more than 10 percent. Considerable increases have taken place only in fibers and sugar, and even these

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have shown almost negligible rates of increase since 1950. While the marketed share of meat and dairy products may have barely kept pace with the growth in urban population in the postwar period, the decline in the livestock herds clearly would not permit this to continue for long, particularly with a steady growth in the population.

The textbook clearly considers the "net income" of the society -- that is, that part available for investment, defense, and other non-consumption expenditures -- to consist primarily of the turnover tax and industrial profits. Gross receipts from the turnover tax have remained relatively constant at approximately 250 billion rubles per year since 1946, while profits have risen sharply from about 20 billion rubles a year in 1946 to about 115 billion rubles in 1953. The bulk of the turnover tax is derived from consumer goods which are agricultural in origin. Agriculture's share in the formation of the turnover tax, however, probably has declined since 1950 because the marketed share of agricultural products and the prices paid for them have remained about the same in the face of substantial price reduction. Furthermore, the aggregate state outlays for agricultural machinery and operating costs have been rising in the postwar period (except for a slight decline in 1951 and 1952). It seems clear, therefore, that the "net income" of the society from the agricultural sector remained stable or even declined in the period from 1950 through 1953. The "net income" of industry and transport, on the other hand, continued to expand fairly rapidly (that is, profits have risen sharply). Meanwhile the economy as a whole has grown rapidly. It would seem that under these conditions the lag in agricultural output presents a serious long-range growth problem and is indeed a violation of the law of planned, proportional development.

V. Transition from Socialism to Communism.

There is one general characteristic of the chapter on the transition from socialism to Communism which may be somewhat different from the Stalinist era -- namely, there is little emphasis on the present tense. For some years before Stalin's death, Soviet writers generally referred to the present as being already in the transition period. To the writers who spoke of transition previously, Stalin's 1946 election speech was the staple diet. In that speech, Stalin defined the "material basis" for the transition as 60 million tons of oil, 500 million tons of coal, 60 million tons of steel, and 50 million tons of pig iron. The textbook does not refer to this speech, confining itself to a few general statements to the effect that the

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USSR has the necessary resource base eventually to make the transition. Occasionally the "present transition" is noted in passing.

It is possible that Stalin's statement "we are now in the transition to Communism" presents the desire of the aging dictator to live long enough to see a bit of Communism. Thus, if Stalin had lived 5 years more, the USSR might well have achieved the rates of output which he envisaged in 1946 and which he at that time believed would not be achieved before 1960 or even 1965. Given these rates of output in heavy industry, Stalin might well have decreed Communism by definition in the same way he decreed socialism by definition in 1936 despite the fact that conditions in the USSR at that time were much more analogous to the conditions reflected in the Royal Commission reports of 19th century England which Marx utilized to document his theories of capitalistic exploitation than to the socialism of Marx's dreams. Thus the textbook's abstract treatment of the transition to Communism may reflect a much more realistic view of the prerequisites for something that might reasonably be passed off as the beginning of Communism. Such an interpretation is at least consistent with the new course adopted by Stalin's heirs. On the other hand, a recent issue of Partiynaya zhizn 20/ still speaks of the present transition from socialism to Communism. Consequently, the above analysis must be regarded as quite tentative. It is included principally because a difference in emphasis in the treatment of the problem of the transition could reflect a less optimistic long-range assessment of Soviet capabilities than Stalin held.

The textbook gives a good deal of emphasis to automation, electrification, and atomic power as the basis for eventually achieving the transition from socialism to Communism. These are the things which are to make possible the "abundance" of goods and services, the elimination of the differences between mental and physical labor, and between town and village. It probably can be safely predicted that the industries involved, particularly the electronics industry, will receive increased attention in the future.

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APPENDIX

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